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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS
APPROPRIATIONS FOR 1999

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS

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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS
APPROPRIATIONS FOR FISCAL YEAR 1999

Wednesday, March 11, 1998.

EXPORT AND INVESTMENT ASSISTANCE

WITNESSES

JAMES A. HARMON, PRESIDENT AND CHAIRMAN, EX-IM BANK
GEORGE MUNOZ, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OPIC
J. JOSEPH GRANDMAISON, DIRECTOR, TDA

Mr. Callahan's Opening Statement

Mr. Callahan. The committee will come to order.

I have an opening statement, but I am going to just submit it to each of you, and for the record. Each of your agencies are very familiar to the Members of this committee, so we do not need a long explanation of what you do, or how well you do it. So I am not going to have an opening statement, and I will yield to the gentlelady from California for a very brief statement, and we will also take her testimony and submit it for the record.

Mrs. Pelosi.

[The information follows:]

[Pages 2 - 3--The official Committee record contains additional material here.]

Ms. Pelosi's Opening Statement

Ms. Pelosi. Thank you very much, Mr. Chairman.

I want to join you in welcoming our witnesses, and heeding

your admonition, once again, I will be brief.

For both Mr. Harmon and Mr. Munoz, from Ex-Im Bank and OPIC, this is their first appearance before the subcommittee, and I extend a warm welcome and congratulations to them for taking on the difficult and challenging tasks that the administration has assigned to them, and welcome back to Mr. Grandmaison from the Trade and Development Agency. Once again, we welcome you.

Last year, Congress put both the Ex-Im Bank and OPIC under heavy scrutiny, as you know, and in both cases Congress ultimately decided to continue to reauthorize these programs for the foreseeable future.

The need to provide American companies a hand in their desire to increase exports won out over the skeptics, those who thought this assistance might be corporate welfare and who had other concerns.

I have always supported funding for these agencies, however, with appropriate qualifications of putting in place strong environmental and labor conditions on loan guarantees and insurance. I also want to stress the importance of preserving strong American content requirements.

This year, with the impact of the Asian crisis becoming more clear, the Congress faces new challenges. The increased demand by American companies for help with their exports has to be balanced with the increased risk posed in countries in economic crisis. In addition, the increased demand for Ex-Im loans and guarantees in Russia will present unique challenges.

I also have concerns about OPIC's plan to implement new environmental regulations, particularly the period for public availability of environmental assessments, and documents, needs to be extended from the proposed 60 days to 120 days, but I have made those thoughts known to Mr. Munoz.

I look forward to discussing these matters as we get into the question period this morning. Once again, thank you.

I read my statement, Mr. Chairman, because that would be shorter than if I just talked about these things.

Mr. Callahan. I very much appreciate that.

Ms. Pelosi. Thank you, Mr. Chairman.

Mr. Callahan. I want to recognize you in the order in which you appear in this program, so Mr. Harmon, we will hear from you first.

Mr. Harmon. Thank you.

Mr. Callahan. Excuse me. Did you have something?

Mr. Torres' Opening Statement

Mr. Torres. Mr. Chairman, I would like to make a unanimous consent request. Obviously, I am not in line for a statement or anything, but I would like to enter one into the record, and some questions, as well, in that I have to leave early.

Mr. Callahan. Certainly granted, and all Members will have whatever time they need to submit questions to any or all three of our witnesses.

Mr. Torres. Thank you. Thank you, Mr. Chairman.

Mr. Callahan. Without objection.

[Mr. Torres' written statement follows:]

Mr. Callahan. Mr. Harmon.

Mr. Harmon's Opening Statement

Mr. Harmon. Thank you, Mr. Chairman, Representative Pelosi, Members of the Subcommittee.

I am pleased to be here for my first opportunity to testify before this Subcommittee to explain the fiscal 1999 budget request for Ex-Im Bank.

Before I review our request for fiscal 1999, let me begin by reviewing where we stand for fiscal 1998. For the current fiscal year, the Congress appropriated a program budget totaling \$683 million. Our most recent estimates indicate that we will run out of funds for medium and long-term loans, and guarantees, in June or July.

When fiscal 1998 funds are expended, we will carry over to fiscal 1999 cases requiring an estimated \$200 million in program budget, and supporting an approximate \$1.5 billion in U.S. exports. This carryover does not include cases which may come into the Bank in the next few months and be approved before September 30th.

You should be aware that we have taken steps to protect our small business programs when our funds are expended, and I anticipate that we will once again exceed the congressional mandate to support small business.

For fiscal 1999, Ex-Im Bank's demands for program budget will total approximately \$1.3 billion. We will meet the bulk of that demand through an \$808 million request for program budget.

In addition, the Office of Management and Budget has recalibrated on a Government-wide basis the method by which we determine how much program budget must be set aside to cover the risk for the transactions.

This adds buying power to our program budget. In addition, adjustments involving such program changes as risk-sharing and fee increases will move us closer to meeting demand. Finally, some funds set aside for tied aid will have to be used for non-tied aid transactions.

In my 30-plus years in the private sector, I have never found making financial projections to be an easy task, but after a careful review of all of our markets, we have concluded that our demand for financing exports in fiscal 1999 will approach \$16.7 billion, compared to \$15 billion in the current fiscal year.

We believe that this will support more than 1 million U.S. jobs, directly and indirectly.

Now, let me discuss two important regions from the standpoint of demand, Russia and the NIS, and Asia.

In Russia and the NIS, which are becoming very active but still challenging markets for our exporters, demand will increase across the board. The energy and agricultural sectors account for much of this increase. So we are carefully monitoring developments in these important markets.

In Asia, we expect a decrease in demand for medium and long-term transactions but greater program budget charges for the transactions completed. Regarding our short-term program, we are being asked to assist exporters in markets that had previously not needed Ex-Im financing.

Thus far, in 1998, we have seen a significant increase in demand for short-term trade finance in Korea. During a 7-week period which ended January 20th, 1998, we approved 200 short-term transactions for that country as compared with four for the comparable period the prior year.

On January 29th, upon my return from Asia, our Board of Directors decided to significantly increase the ceiling for short-term transactions in Korea. Without this, a large amount of U.S. exports would not have been completed.

We expect demand for our small business programs to increase, but this is one area where we can do better. In fiscal 1996, small business represented 20 percent of our financing and 81 percent of our transactions.

In fiscal 1997, the percent of total dollar amount of financings fell to 15 percent, though the percent of total number of transactions remained at about 80 percent. As to the reason for this drop, there are some indications that the private market absorbed some of this business.

Since I have dealt with small companies for much of my professional career, a major focus of my administration will be an expansion of the Bank's small business program. Part of this effort will include expanding our contacts with rural business.

I also ask for your support of our request, that our program budget funds remain available until expended. This ``no year'' money will help us smooth out the difficulties of estimating caused by business cycles.

Mr. Chairman, I could not complete the testimony without mentioning our administrative budget. We are requesting \$51.9 million as opposed to \$48.6 million for the current fiscal year. However, \$2 million of this increase is set aside for renovation of our present building. This leaves the increase for recurring administrative expenses at less than 3 percent.

I will be pleased to answer questions. Thank you.

[The written statement of Mr. Harmon follows:]

[Pages 9 - 24--The official Committee record contains additional material here.]

Mr. Callahan. Mr. Munoz, OPIC is next in our book, so go ahead. Wednesday, March 11, 1998

Mr. Munoz' Opening Statement

Mr. Munoz. Thank you, Mr. Chairman.

I would ask that my full statement be submitted for the record, and I will briefly summarize my comments in order to get to your questions.

Mr. Callahan. Without objection.

Mr. Munoz. Mr. Chairman, I first want to start off by thanking you and Congresswoman Pelosi, as well as Chairman

Livingston, and your whole subcommittee staff for the outstanding leadership in helping OPIC be reauthorized for two more years.

We know that your championing this cause will benefit America's economic and foreign policy interests.

It is a special privilege also to appear with my colleagues, Jim Harmon of the Export-Import Bank, and Joe Grandmaison of the Trade Development Agency. We have developed a strong working relationship which we believe yields a better return to the taxpayer and the American businesses in the global marketplace.

My background as a CPA, attorney, and formerly the CFO of the U.S. Treasury Department, leads me to scrutinize our budget and our operations very carefully. One of our highest priorities is to make sure that we manage our portfolio in the best possible way and to make sure that we fully protect the full faith and credit of the U.S. Government.

1997 was a very successful year for OPIC. We produced a record net income and put more money in the U.S. Treasury than ever before. Our net income reached \$212 million.

More importantly, through our financing and political risk insurance programs, we are helping U.S. companies invest in projects in more than 90 developing countries and in markets that are in transition from Government control, like those in the former Soviet Union.

OPIC support to America's private sector remains essential. We know that in the debate last year, questions were being raised as to whether OPIC was still needed or not. As a result, the GAO was asked last year to take a look at whether or not OPIC was still required.

GAO concluded, just this past September of 1997, that ``markets still exist where U.S. firms are unable to obtain private finance or insurance services. As a consequence, they seek public support from OPIC or multilateral agencies.'' And that is a quote from that report. So we urge that the public be made aware of that.

With respect to our budget, we are requesting less money this year than we did last year. Our FY 1999 budget request proposes \$8 million less. The most significant part of the request is a modest increase in administrative expenses, most of which is needed to cover the additional cost of prudent management of the growing number of OPIC-supported projects, particularly the expansion of OPIC's project monitoring efforts.

OPIC's administrative budget expense saw no increase between 1997 to 1998, so therefore, the increase for the administrative budget averages to 3 percent per year, which would be the rate of inflation.

In my view, strong and responsible financial management must remain one of OPIC's most important objectives. Portfolio management issues are a key focus, even though OPIC's existing book of business is healthy and well-diversified by region and sector.

We have a \$3 billion reserve backing up our outstanding liabilities, which is a record high. The high level of reserves is evidence of OPIC's outstanding record of recovery on claims. Through fiscal year 1997, OPIC's gross claims paid or settled

over its history, have totaled a little over \$500 million, yet all but \$13 million of that has been recovered, resulting in an overall 97 percent claims recovery rate.

In conclusion, I can report that OPIC, as a self-sustaining program, is prepared to meet the challenges that promote development and assist U.S. businesses as partners in international investment and trade.

Also, I would like to say thank you to those Members of this committee who have indicated they are retiring, and who have dedicated tremendous efforts to the mission of this committee starting off with Sidney Yates, a gentleman who I know from Illinois, myself being from Chicago. Certainly, I would like to give great gratitude for his service to the whole foreign operations area. He is a gentleman without match. Having served 24 terms is quite a commitment to public service, that I know all of us salute.

If I may also point out that Congressman Esteban Torres, who has been a champion and a leader in domestic and international affairs, has also announced his retirement and we very much appreciate his efforts at OPIC, and I know I speak for all of us that are testifying today in thanking him, for his commitment.

I would like to suggest to Congressman Torres, and perhaps to Congressman Yates also, that when Congressman Livingston announced he was considering leaving, but after he saw that OPIC was requesting less money and was making more money, we know that he changed his mind. We do not know if that was the reason for changing his mind, but we know that information was disclosed to him. [Laughter.]

So we are hopeful that this testimony will encourage your reconsideration. If not, sir, we thank you very much for your service.

[The statement of Mr. Munoz follows:]

[Pages 27 - 46--The official Committee record contains additional material here.]

Mr. Torres. Thank you, sir. I am glad I did not leave early.

Mr. Callahan. George, we will join you with respect to encouraging us to want to stay, and Sid Yates as well. But with all due respect, I do not think that the reason----

[Laughter.]

Mr. Callahan. He was afraid to leave me in charge.

[Laughter.]

Mr. Grandmaison.

Mr. Grandmaison's Opening Statement

Mr. Grandmaison. Mr. Chairman, Members of the committee, I also would like to submit written testimony and just speak, and say a few words, if you will, reporting back to you on TDA and our year.

We believe we have had a good year. As you know TDA tracks every single investment that we make, so that we can quantify

what the result has been, and we are pleased to report to you that exports that were identified, this year, amounted to \$1.5 billion, which brings the grand total up to \$11.5 billion worth of exports, that were facilitated through a TDA investment.

Now that takes the multiplier from 31 to 1, to 33 to 1 from our program dollars. So we are very, very proud of that record, and our commitment is, as we move forward, to do even better than that.

Now, there is an explanation for it. First, we think we are doing a good job, with all due modesty; but also, there are an increasing number of U.S. firms, small and medium size firms, especially, who are desiring to get into that international marketplace.

So the types of services, the information that we provide is that much more valuable to them. A good example is in the environmental sector.

The environmental sector, in our country, after the growth in the 1980's, is pretty stagnant as of the moment. So therefore, if you are in the environmental business, you have a need, if you want to grow your company, to look internationally.

We have been doing an ever-increasing amount of investments in that area, an example being that in fiscal year 1996 we spent less than 10 percent of our budget there, whereas in fiscal year 1997 it was 15 percent.

We believe that is going to continue. And that is just an example. And in that case, most of the companies you are dealing with are small companies.

Second, we are changing the tools as to how we use the resources that you provide us. Our basic product, as you know, is our feasibility studies, the development of the business plan, but we are trying to use it with more imagination, more creativity, because in all cases what you are trying to do is influence the procurement decision.

Often, we are providing information and, if you will, stepping away from the transaction, having put U.S. business directly in touch with a prospective project sponsor.

Now, additionally, we are paying even more attention as to what we can do to help countries as their economic dynamic changes in their country, meaning more of our investments are in the private sector.

A good example is working with the country of Poland on the privatization of its telecom industry--very important, big dollars at stake, heavy international competition. Providing them the resources for them to contract with U.S. technical experts to help them become more confident and move in that direction is very, very vital to what we believe, as a country, they should be ascribing to.

Now, additionally, our small business, as an example. A third of our program dollars--a third of our program dollars go to small business. 62 percent of the companies we work with happen to be small business.

Now there is an explanation for that--and that is a dramatic change over, we will say, five years ago. An explanation has everything to do with the outreach effort, it is that you can be sitting in any one city or town making your marketing decision, but if nobody makes themselves known to you

as to what you are as a resource, then obviously, you do not take advantage of it.

So we have aggressively reached out. We were once described as the ``best kept secret'' in Washington--something we are proud of--but the fact of the matter is there is no reason to keep it a secret. We should make it more available, and we have done that through a very aggressive marketing effort, including 16 conferences in the last fiscal year, and 45 orientation visits. That is bringing people from a host country, who more often than not have a tender out, who actually meet with the individuals who have equipment and services to sell them.

I believe our most exciting event, looking forward, is going to be May 27, 28, and 29 in Istanbul, and this is our Crossroads of the World conference at which both of my two colleagues will be participating.

Here is a major area of territory, the 13 countries around the Black Sea, the Caspian Sea, up through Central and East Asia. Bringing them together, we have identified 70 project sponsors who will be brought to Istanbul, as our guests, matched with U.S. companies who are interested in working with them in four sectors. Power, oil and gas, mining and minerals, and transportation.

Now we all read in the paper, constantly, about the quote, ``politics'' of this region of the world, but putting that aside, what we have to do is we have to take our U.S. business community and match them, as best we can, with those project sponsors.

We have also just had a tremendous success in Argentina, where a U.S. company won the concession for the privatization of the 33 airports, the company being the Ogden Corporation from New York.

And what we did in that case--it was fascinating, we think--with the help of Commerce and the FAA--we have been tracking this project for two years. We have brought the Argentines to the United States to present their package to the American aviation community. We had this at the Argentine embassy. We had 150 people in attendance. That was the first time, we are told, that Ogden was aware of this particular project happening.

Well, about three weeks before the decision was made on which company to select for the privatization, the court in Argentina ruled that President Menem could not proceed with the privatization until he had established a regulatory authority to determine what the public and private interests were.

We made an offer to them that said, if you select the U.S. company we will provide you up to a million dollars, you, the Argentine Government, so that the FAA can go in and work with you, and the U.S. private sector, in developing the regulatory authority, so that you can proceed with the privatization.

So even though we helped Ogden, a company that in the next three years will be buying about \$200 million worth of U.S. exports to satisfy their commitments to the Argentines--and Ogden is the beneficiary--the Argentines are the ones who will then develop the technical assistance package with us, to meet, in that case, the court challenge, and other issues that result because of the privatization.

What we are learning, Mr. Chairman, is how to use our

money, if you will, with more imagination. How to be more creative and get the results that you expect of us, that being U.S. exports.

Now we have asked for your consideration and the administration has recommended an increase in our program budget.

We would point out to you, if you will, Mr. Chairman, that our core budget has remained basically the same since 1993. We are being asked to invest in new areas of the world, some by this Congress, in terms of countries where we are now open.

We would hope that you would look kindly upon our request, notwithstanding the fact that we are appreciative that there are always many, many demands placed upon you.

We have had a good year, we appreciate the input we have received by you and other members of Congress, and hope to be able to continue looking at the fiscal year 1999. Thank you.

[The statement of Mr. Grandmaison follows:]

[Pages 50 - 56--The official Committee record contains additional material here.]

Mr. Callahan. Thank you.

I am going to deviate just a little bit, with the indulgence of my Ranking Member. Just three years and two months ago, I was the most junior Member on this committee, and I can recall sitting there, Nancy, and waiting and listening to Obey and Livingston, and everybody else talk, number one, they asked all the questions, and most of the time I did not even get to talk to them.

So I am going to take my seven minutes of opening statement, and then I am going to yield to you. But first, I am going to yield three and a half of my seven to Ron, and then three and a half to Rodney, and then you can take seven and do what you want to do. [Laughter.]

Then we can come back and start the regular five minute process.

Ms. Pelosi. Thank you, Mr. Chairman.

Mr. Callahan. Mr. Packard.

Mr. Packard. I do not know what I have done to deserve this. Thank you, Mr. Chairman.

It is a pleasure to have each of you here and to hear your testimony.

u.s. investments in ukraine

Mrs. Albright, the Secretary of State, just returned from Ukraine, and she persuaded the Ukrainian Government to relinquish the sale of nuclear turbines to Iran, and, in exchange, she promised Ex-Im Bank loan guarantees and some ``other investments.''

How do the Ex-Im Bank guarantees affect your budget submission? Was that included in your budget, how will that be scored, and how will that affect your budget?

Mr. Harmon. I am not certain whether or not that may have been factored in. However, I do not believe that it was.

Mr. Packard. I would doubt it.

Mr. Harmon. I doubt it very much. For the balance of this year, and for next year, we have closely looked at all of the areas, and we have not included items such as this. So I do not believe that it is included in any of the numbers.

Mr. Packard. All right. You might submit for the record just how that might affect your budget and how much we are talking about in terms of those guarantees, and how it will be scored.

[The information follows:]

Ex-Im Bank Response

Ex-Im Bank is not aware of what Secretary Albright was suggesting, and we did not include in our Fiscal Year 1999 budget request any specific financing for a separate program of this nature.

TDA Response

It is my understanding that Secretary Albright agreed to organize a trade mission to the Kharkiv region in Ukraine and to work to establish a program to support small businesses and create jobs in that region. The Secretary's agreement did not imply a commitment of any TDA assistance. TDA will consider projects in Kharkiv and elsewhere in Ukraine as long as they meet the criteria we apply to a proposal from any part of the world.

Mr. Packard. Also, Mr. Grandmaison, she referred to ``other investments.'' Do you know what those are and how much they would come to?

She indicated that there would be Ex-Im Bank guarantees, small business loans and other investments into the Kharkov region.

Mr. Grandmaison. Congressman, I am not aware as to what the Secretary was specifically referring to. As for TDA, we have candidly moved with great caution in Ukraine. As I recall, our first two investments were less than successful, given the influence of the French at the last moment.

Since then, we learned our lesson, we are moving very cautiously, but we have had successes. My recollection is that we have done about 12 investments in Ukraine, of which four have moved on to actually be purchasing U.S. goods and services, and three continue, whereas the others were not successful.

It is a very, very difficult and tough market. Companies come to us often, and candidly, we express caution to them.

Mr. Packard. Well, she did promise some TDA money and I was wondering if it is the same monies that you are now speaking of, or if that is additional TDA monies in terms of feasibility studies, and so forth. Would you----

Mr. Grandmaison. If she promised it, I assume it is from her budget. [Laughter.]

Mr. Packard. Would you submit for the record what those are.

Mr. Grandmaison. We had no contact with the State Department relative to Ukraine.

Mr. Packard. Please, please do some research and, for the record, let the committee know what we are talking about.

[The information follows:]

It is my understanding that Secretary Albright agreed to

organize a trade mission to the Kharkiv region in Ukraine and to work to establish a program to support small businesses and create jobs in that region. The Secretary's agreement did not imply a commitment of any TDA assistance. TDA will consider projects in Kharkiv and elsewhere in Ukraine as long as they meet the criteria we apply to a proposal from any part of the world.

Mr. Callahan. Mr. Frelinghuysen.
Mr. Frelinghuysen. Thank you, Mr. Chairman.

asian financial crises

Gentlemen, I have looked over your remarks pretty carefully. I would like to just get your reaction. In all of our comments, you talk about the Asia situation, the Asian financial crisis, the economic turmoil and political turmoil in Asia.

I would like to know: Did any of you anticipate this financial meltdown in this part of the world?

I know in your statements you are reacting to the situation. Mr. Grandmaison, in your comments, you say here, and I quote: ``We are also being challenged by the Asian financial crisis.''

Mr. Munoz says in his comments--hopefully not taking these comments out of context: ``We are actively managing our existing portfolio in the region.''

Mr. Harmon of the Ex-Im Bank has come up with an immediate plan to stabilize the Asian markets, as listed on page seven.

I am more interested in knowing where you were as this situation was developing, because of, you know, we hold you in high esteem, you do some tremendous work around the world, but was this meltdown on your radar screen, and at what point in time? Either and all of you.

Mr. Harmon. Let me respond first.

I was not confirmed until June, and it was in July that the currency in Thailand had its first decline. It is very easy to look back and say, ``Why did the world not see this crisis coming?''', but I can assure you that no one in the investment banking area in New York, or any of the firms I know predict the dramatic decline that we have had there.

There may have been some warning signs, here and there. But, I saw very little in the way of outstanding statements by the private sector, that this situation was about to fall apart. Furthermore, everybody likes to look back--I am talking now about the private sector--and say they said this and they said that.

Now, as far as the public sector is concerned, I cannot speak to that because I was not here.

Mr. Frelinghuysen. Yes. I am not trying to be adversarial, but it does seem to me that, by nature, all of you manage risk here. You are risk managers. You are investing here on our behalf, and I am not being critical--that somehow, I would think that somebody might have been sort of taking the temperature. I just wondered whether there was any sort of early warning signs that any of you---

Mr. Harmon. Of course, as the world looks back on it now,

we all see things. But, I have lived through eight bear markets and seven recessions, and believe that there will be downturns, because the business cycle is still with us. It is always the same. People get caught up in the enthusiasm of new business, whether it is real estate in New England or savings and loan--whatever it may be--they throw more money than they should at different parts of the world. Clearly that happened here, except they did not have the regulatory bodies in order to manage it.

And so when you look back on it, yes, we should have seen it, but I do not think a lot of people saw it coming this way, myself.

Mr. Munoz. I would like to add--you are absolutely right, Congressman. OPIC is in the risk management business and because we are doing that, we did not give any special treatment to that part of Asia. In fact all over the world, the emerging markets have different elements of controversy and risk. As a result, the projects that OPIC has in that part of the world, when we say we are actively managing it, we might require more collateral in project finances, we might look for contracts that are tied into the U.S. dollar as opposed to local currency.

Those kinds of measures are taken into account. As a result, to date, we have not had any claims made against OPIC, and as we look at our portfolio, we think it is manageable. We know that many of our mechanisms for payment are not if a crisis like this hits, there is a time for which resolution can take place, and normally it does.

In those few instances where a claim has to be paid by OPIC, as I said in my opening statement, we have an outstanding track record in that we recover 97 percent of the claims that are paid.

Mr. Callahan. Mr. Grandmaison, do you have a brief response to that?

Mr. Grandmaison. I would love to be able to say yes. Regrettably, that is not the case because we operate on a project by project basis. If there was anything that we should have noticed, it was that the investments in the infrastructure area were not moving as quickly as they should have from public sector to private sector, and that meant, obviously, the Governments were willing to carry more debt than A, they should, or B, than conceivably, they had to.

But there was no additional notice, more than that, on our part.

Mr. Callahan. Mrs. Pelosi.

Ms. Pelosi. Thank you, Mr. Chairman.

Following your lead, I offered the seven and a half minutes to Mrs. Lowey, but she has graciously yielded them back.

[Laughter.]

That level of cooperation is on both sides of the aisle.

Well, thank you, Mrs. Lowey. Thank you, Mr. Chairman.

I want to thank our ``witnesses,'' and that, these days, sounds like an ominous word, but our leaders in the export area, for their testimony, for their leadership, for their hard work. I reiterate some of what I heard from you, that you will always hear from me about, I hope you will put a stronger emphasis on small and moderate size businesses, on women and

minority-owned businesses.

Mr. Packard can attest to the fact that we have been busily meeting with our State legislators from California the last couple of days you know how important exports are to our State.

But they of course keep saying to us, ``We need more, more, more of communications.'' So I would hope that your outreach, as you have described into other countries, will continue.

I know you have said that you would be available for these meetings. I know that if Californians want more, other States would benefit also from being made aware of what opportunities there are for moderate and small size businesses.

environmental concerns

On OPIC, Mr. Munoz, as you know, I commended you when you came to my office, and I want to publicly commend OPIC, for proposing to expand the list of projects that you will not finance because of environmental and social issues, and I commend OPIC for proposing to require Forest Stewardship Council certification for all timber projects that you fund. I commend you for that.

On the other side of it, I mentioned in my statement as a very high priority, my concern about the proposed 60-day in advance disclosure policy, which I strenuously object to as insufficient. I also want to go on to mention that at the anniversary of the Earth Summit, as many of us remember, President Clinton committed OPIC to environmental policies that abided by the World Bank standards, U.S. Federal standards, or host country law, whichever is the higher standard.

Unfortunately, I am not absolutely certain that OPIC is going down that path. I am concerned that OPIC has narrowed which World Bank standards it will adhere to as far as pollution abatement guidelines, as opposed to the operational guidelines which would commit OPIC to adopting operating guidelines which were more environmentally and culturally sound, and that OPIC is saying it will only use U.S. Federal law if there is no World Bank standard to follow, and that you will not commit to using U.S. Federal law on issues that would fall under the operating guidelines, such as resettlement policy, indigenous people, and wild lands.

Having said that, I do appreciate that you put together the OPIC environmental handbook, and all of the work that that implies and entails, but I, again, have these concerns that I wanted to put forth to you. Anything that I say about the environment, of course is for all our financial institutions.

Mr. Munoz. Yes, Congresswoman, we have looked at the concerns that you have raised, and have gone back to review this since our meeting. We are still in the process of having that handbook be open to questions, concerns, and comments, during this 120 day comment period. That comment period will still go on four months, and as we accumulate all these comments, we are accumulating them from both sides--the environmental groups as well as the business group.

We will certainly try to weigh through them. Because of your very important interest in this, we will not make any conclusions on them without making contact with you again in terms of how these things are to be resolved. We know that it

is an important matter to you. It is certainly an important matter to global economics. So we will take those into account.

Ms. Pelosi. Thank you, Mr. Munoz.

I remind you that the 120 days is a compromise, at that.

Mr. Munoz. Yes.

Ms. Pelosi. And that non-governmental organizations, the indigenous people, and all of those who are interested in this issue, believe that that was----

Mr. Munoz. Compromised already.

Ms. Pelosi. That was the least that we could live with in terms of the 120 days. Thank you, Mr. Munoz.

asian financial crises

Mr. Harmon, welcome. Recently, the export credit agencies of the G-7 got together to attempt to work together in response to the Asian crisis, and particularly to respond to the need for short-term credit insurance and guarantees.

Your statement indicates that you could commit up to \$3 billion in short-term financing for Korea, Thailand, and Indonesia. When do you anticipate securing sovereign guarantees from Thailand and Korea to do this short-term business, and will you extend this financing without such guarantees?

Mr. Harmon. When I came back from Asia in the middle of January, we made the decision to increase our support for trade with Korea, first. This was not such a difficult decision. Korea had been making all the right moves. Although the next year, or two will be a difficult time for Korea, it is moving well in its recovery program.

As you may know, the private commercial banks in the United States had stopped confirming letters of credit, and very few exports had been completed. Were we not to step up and do this exports would continue to decrease. In fact in your area, if you look at California port numbers, you will see there is even a slow-down right now.

This was a very creditworthy type of transaction for us because of our long-term relationship--we have been in Korea 47 years and our short-term insurance experience in support of trade was very good. In fact, fewer than 1 percent have resulted in claims.

So I thought it was a relatively easy decision to move up without a sovereign guarantee. Consequently, the Board of Directors approved the transaction and stated that it would provide up to \$750 million in short-term insurance. We are about at \$500 million now. This financing actually rolls over about three or four times a year, so that it actually supports exports of somewhere between \$2 and \$2.5 million in Korea alone. All of this is without sovereign guarantees.

It is also interesting to note that much of this financing is helping small companies in the United States export. These are small companies that could not get financing to export to these markets. Some of the bigger companies can step in and take their own credit risk. So this very creditworthy financing is good for small business, and good for our exporters.

When the Bank was asked to go up higher, because demand was there and the private banks were not going in, we decided that we would go up if we got a sovereign guarantee. We have asked

Korea for this sovereign guarantee and they are currently reflecting upon it. They have, however, indicated a willingness to provide it. But, it will be another few weeks before this is completed.

In Thailand, it was a little different. These countries have graduated from Ex-Im. They were so creditworthy and doing so well. So they did not need any official kind of credit support. Consequently, we had not been active in a short-term program in Thailand nor had we been active in Indonesia, for the same very reason.

We have had a very modest amount of activity in Korea. In Thailand, it has started to pick up, but it is much smaller than Korea, and we have asked for a sovereign guarantee. This week we expect to sign a Memorandum of Understanding with the Prime Minister, or the Minister of Finance in Washington, which describes the outline of what we would do.

Again, I feel quite comfortable with the creditworthiness and the support we are doing for exporters. Some day the private sector, including private banks, will come back, and do this, and we will be out of it.

But for the meantime, this financing will result in a very significant increase of exports to two countries, Korea and Thailand. We are treading water in Indonesia right now.

Ms. Pelosi. But could you expand on your statement that adjustments in payment schedules for Ex-Im's exposure of \$3.7 billion in Indonesia may be required? Can you comment on the outright losses, or defaults that are anticipated, following up on Mr. Frelinghuysen's question?

Mr. Harmon. Yes; an important question. We have not experienced any losses yet. So it is almost as if it is business as usual, but, of course, we know it is not business as usual. We know there will be a requirement, in time, to reschedule. That does not mean we have done a net reduction in debt, but a rescheduling. Sooner or later there will be negotiations on some matters that we have, such as deferring amortization of debt. However, I do not believe that it will necessarily result in losses. Although we expect losses, as we always have--we have reserves to cover any expected losses.

But, we are monitoring it very closely. We expect the next year or two will be a difficult time for Indonesia.

Ms. Pelosi. How does what you are doing compare with the export credit agencies of Japan and our European allies in this area, right now?

Mr. Harmon. Can I come back for one minute to what you just asked on environment, because it an interesting note. We are the only export credit agency in the world, I mean, of the G-7, that have any environmental guidelines. It is my hope--and I am working with others in Government--to try to bring the other G-7 countries up to our level. This would be a wonderful achievement. If I could do it in the next few years, I would be extremely pleased.

Ms. Pelosi. I agree; it would be.

Mr. Harmon. It is really a disadvantage for our exports; however, we are hurting the world by not requiring the other G-7 export credit agencies to have similar criteria. These criteria are not so extraordinary. It is the World Bank's criteria. Right now, we are going through a whole reappraisal

of our environmental guidelines with the environmental groups.

This is a very worthy goal. But, we have not gotten there yet however, we are starting to make a little bit of progress. Now, on the other question.

It was clear to me that we could coordinate an effort with the G-7 countries where each of us supports our own exporters, without changing the competitive nature that we have with the others. They were very responsive, and we did have an extensive meeting where they brought along what they call their guardian authorities.

I think that the other countries--France, Germany, and Japan--will step up and be more supportive of their own exporters in the Asian region. This will be very constructive since the Asian market is important to the U.S. as well as to the rest of the world. All the countries in the G-7 have to support the markets in order to keep them available for us and everyone else to sell their products and services.

Ms. Pelosi. Thank you.

Thank you, Mr. Chairman.

Mr. Callahan. Mr. Kingston.

Mr. Kingston. Thank you, Mr. Chairman.

tda project criteria

Let me ask a question of the Trade Development Agency, first, in terms of the congressional presentation that outlined the criteria you use to assess potential projects.

How tightly are the criteria followed when applied in the field and how are they enforced?

Mr. Grandmaison. I am sorry, sir. If you could repeat.

Mr. Kingston. Well, in your congressional presentation you mentioned the criteria that you use to assess potential projects. How tightly is that monitored?

Mr. Grandmaison. The answer is there are rare exceptions to the criteria. All right. The criteria being that the project must be a priority of the host country, that the potential for U.S. exports must be considerable, and that there has to be a likelihood of financing. The fourth is that we prefer investment--and this is where it is a little looser--we prefer to invest where our economic competitors are competing in the same market.

When, as an example, we invest in Russia, often we would invest in that case even though there is not a direct competitor for the market. Though we are aware that Germany--if they were interested, German companies can be as competitive as those U.S. companies.

But other than that latitude, in certain situations, the criteria are quite strict.

Mr. Kingston. So generally speaking, if a project does not meet the four criteria, then it probably will not get granted, is that correct?

Mr. Grandmaison. That is correct.

Mr. Kingston. And you have statistics on that, that show that?

Mr. Grandmaison. Yes.

Mr. Kingston. Okay. Also, after a feasibility study, what portion of the value of the following development projects, and

all that later flows from them have generally and historically been directed to the United States? I guess in terms of, you know, what is our gain from it?

Mr. Grandmaison. One in three of our investments pay export dividends. Now, what we are not able to ascertain with certainty is that if we were not there, would it be absolutely that those exports would not have come, irrespective of our involvement? That is an intangible. We cannot ascertain that.

What we do know, however, is that if the criteria as to competition from other countries for that project is maintained, that whenever the French or the Japanese or the Germans invest in a feasibility study, our companies are almost categorically ruled out of competition. So that it does not necessarily get you the project, because you then have to compete; but the only way your U.S. company can compete for those exports is if we had been able to massage, if you will, the technical requirements.

Mr. Kingston. So it is an inexact science in knowing what a U.S. company would have gotten anyhow?

Mr. Grandmaison. Yes, sir. If I would suggest otherwise, I would not be honest. What we do know is that without that investment, we would be out of the ball game, but it does not guarantee you the export.

Mr. Kingston. Yes; okay.

All right. Thank you very much.

u.s. capital investment danger

George, let me ask you a question, a softball question. Some U.S. companies have contacted our office about fear of being nationalized in Asian marketplace, and so forth, and you are probably the foremost world expert on nationalization, or political risk, or you certainly study it.

What is the danger of the U.S. capital investment in countries such as Indonesia, being lost to nationalization at the present time, with the financial climate being where it is?

Mr. Munoz. Well, today, it is certainly higher in terms of nationalization, and Indonesia is going through some very, very difficult times right now. As you know the IMF has put in some requirements for reform. One of them, which is very important to us, is transparency in Government contracting, and in all its dealings. So in these kinds of instances, if an American investor were saying we want political insurance against nationalization, or expropriation. We consider the sector is, because not all sectors are as subject to Government take over.

Oil and gas, or things of a critical infrastructure are more sensitive, because Governments have shown, through history, those sectors are the ones that they will take over. Other types of investments, consumer products for example, are less exposed.

So to answer your question, the risk would be dependent on sector site, and the type of experience an investor has in relationships with that country.

Mr. Kingston. Let me ask you a specific in our hemisphere. In Ecuador, right now, oil prices are down and the economy is hurting. We have a huge American oil company presence there. Are they in any kind of danger, in your opinion?

Mr. Munoz. When a Government has its back to the wall, these are the kinds of things that we look at. But we have no indication, right now, that the danger is any greater right now.

Mr. Kingston. Okay. Mr. Grandmaison, let me ask you this. We had some--and I cannot remember what the group was, it was a chemical manufacturers coalition, pushing for more U.S. Government involvement in R&D, because they say that overseas their competitors are getting a tremendous amount of it.

Are you guys involved in something like that? Do you guys come into anything like that? I mean, they were really looking for new authorization, and so forth. But does TDA have anything that would maybe diminish the need for more appropriations and more authorizations?

Mr. Grandmaison. Specifically, we do not, and we work with that sort of a group in that sector, when there is a decision that has been made to develop a chemical manufacturing facility overseas, And what we want to do is facilitate that foreign project sponsor's likelihood of purchasing U.S. goods and services in developing that facility, a good example being in the Czech Republic.

In Central Europe it is obvious that the Czech Republic is going to wind up being the powerhouse in the area in the chemical sector.

They were searching for prospective partners. It was to our advantage to move them towards bringing U.S. companies to work with them on that. But strictly in the R&D effort, we do not.

Mr. Kingston. Okay; thank you.

Mr. Callahan. Mrs. Lowey.

Mrs. Lowey. Thank you, Mr. Chairman, and I welcome you gentlemen, and I thank you for your important work.

I will close, depending on the generosity of the Chairman, by asking you to expand your answers on your outreach to small businesses, because I have been particularly impressed with your responsiveness to this committee. But in case there is no time, I will save that question for the record.

Mr. Callahan. The gentlelady is recognized for as much time as she would like.

Mrs. Lowey. Oh, you are so gracious.

RUSSIA AND THE NIS

But I want to begin, first of all, with Mr. Harmon, New York's gift to Government. We thank you for coming here and for the great job you are doing.

I have been particularly concerned about investments in Russia and the Newly Independent States. I think it is very important, and you mention this in your statement, that you expect that demand for loan guarantees will increase in Russia. But I have also been very concerned with the increase in corruption in Russia, and that our assistance may not always be going in the most positive direction.

Could you discuss with us what actions Ex-Im is taking to insure that this corruption does not negatively impact Ex-Im's activity in the region.

Mr. Harmon. Thank you. It is true that our business in Russia is growing. It has been averaging about 20 to 25 percent

of our program budget for the last two years, and probably will go up as high as 30 percent next year.

We worry, as you can imagine, about all the concerns you have in Russia and the NIS. It is a challenging market. I was there in November, and we were well-informed of the concern about corruption. For several years, we have had requirements that exporters must confirm to us in the form of supplier certificates, that there have been no payments made, and no other kinds of financial transfers that could lead us to believe that there would be some corruption on that transaction.

And we try to monitor it as best we can. I believe that we are fairly careful in this area, and we are working with, of course, some of the larger entities in Russia.

We are now making an effort to reach out beyond just the sovereign guarantee area into an area, where we will take some bank risks.

We have a responsible team working on this area that is very much aware of the concern regarding corruption, and looks into the background of everybody that we are dealing with, when a transaction is brought to our Board of Directors.

While doing this review, staff looks at a transaction in terms of the history of the people involved, how the transaction was created, and every detail that could lead us to some concern on this question. There are times when we do decide to defer action on something because we are concerned about any possibility of corruption.

At the moment I think we are very cautious, and conscientious in this area. But it does not mean that you could not have a problem. However, we are very good on the way we have analyzed it, and the way we have followed up in determining who is involved, what they are doing, and how we get the final certificate from all the parties involved, that gives us the comfort that at least we have done due diligence in this area.

Mrs. Lowey. That is amazing. So you are saying that Ex-Im is working with entities that may or may not have partners in Russia, that are conducting business successfully. You feel relatively confident, based upon the investigation, that there is not corruption involved in that particular business?

Mr. Harmon. I think we are doing what we should be doing in analyzing both the creditworthiness of the transaction, and that we are not involved with people who, quote, are engaged in corrupt activities.

So I have looked at that closely, since I came in, and I think we are doing pretty much what we can do. The people we are dealing with are as responsible as you could find in the developing world. All over the developing world, you worry about this. It is not just Russia.

Mrs. Lowey. That is right.

Mr. Harmon. It is a concern that you have, whenever you finance anything in the developing world, whether it is the Caribbean, Africa, India, or wherever. It is not just Russia. We have to be comfortable that the parties that we are engaged with, that is, on the U.S. side, give us their confirmation that they know of nothing that would lead us to that conclusion.

Then we have to be reasonably comfortable with the history and background of the people that we are in business with, and the banks that we are dealing with. Of course, when it is some of the very largest companies, it is a little bit easier than the smaller companies. So far, we have not done too much in the smaller companies area. But, we are monitoring it as best it can be done.

Mrs. Lowey. I would be interested in further discussions on this, because having visited Russia a few times, this has been a great concern of mine as we have seen the whole climate there change. I am glad you said ``reasonably comfortable,'' or ``as best as it can be done,'' because I think that is really the question. And the impact of our dollars, and where they are going, given the situation in Russia, has been of great concern.

I think in this committee we are always balanced. We have expressed our concern about the assistance we are giving. On the other hand, we realize that Russia is destined to be a great nation again. The economy is booming, although it may be less than equal for all parties, and we have to be there as a part of it. It is important that we support growth and trade, in Russia and the Newly Independent States.

But we still have very serious concerns. So I would, at some point, like to get a more in-depth briefing.

Mr. Harmon. If I could just add something, and not that we are all not responsible for our respective agencies nor am I trying to shift responsibility, but, the embassy is invaluable in situations of this nature. They are the people on the ground, and, candidly, it is not unusual to get an off-the-record call from the embassy, that basically says, ``This is not a prudent investment for you to make.''

Now they are not required to give you chapter and verse as to why they believe that is the case, but they warn you, ahead of time, that this is just something that you would be better served not getting involved in, and our belief is that if the embassy is not supportive of our investment, then we just should not be doing it.

Mrs. Lowey. My overall question, which I would like to discuss further, is to what extent can the American business community, working with Ex-Im, TDA, and OPIC, encourage American style business practices as opposed to the kind of corrupt practices that we see are so rampant in Russia?

That is really my question. Have we seen a change? Recently, Mr. Chairman, I saw an article about the fact that anyone with a kiosk in Russia has to hire a security guard to protect it. One gentleman has gotten a good reputation--almost the Good Housekeeping seal of approval--and he is making millions and millions of dollars.

This gentleman is going into so many different areas, a multi-million dollar business, because of the great skepticism and concern on the part of the public. His face and his name are providing some security to the people, that the peas they are buying, the coats they are buying, the cribs they are buying, are good, and solid.

So I think it is a concern and I am interested to know to what extent Ex-IM, TDA, and OPIC, can foster good business practices in that region.

middle east

I appreciate it, Mr. Grandmaison, that you provided to us a list of projects in the Middle East. I have always felt, given the sometimes intractable nature of the problems in that region, that people do not have to love each other. But through investing together and building strength and economic development, perhaps they can learn to live together by raising the living standard for all.

So in looking at these projects, perhaps you can give me just a status report on where some of these projects have gone. The fiberglass plant, the food processing facility, the Gaza hotel. I think these are very important and the work that you are doing is essential in terms of the whole region.

Could you give us some status report.

Mr. Grandmaison. Congresswoman, if you would allow me, I would like to provide you, in writing, a report on that.

Mrs. Lowey. Fine.

[The information follows:]

TDA activities in the Middle East have played an important role in demonstrating that peace can help lead to economic growth and social development in the region, while at the same time generating new business opportunities for U.S. firms. The following highlights our efforts.

Jordan: In April, 1995, just six months after signature of the Jordan/Israel peace treaty, TDA sponsored a symposium on infrastructure development in the Jordan Rift Valley. Attending the conference were 200 firms from Jordan, Israel and the U.S. together with senior officials from the three countries, including Jordan's Crown Prince Hassan and Israel's Prime Minister Shimon Peres.

TDA signed a grant at the conference which funded a feasibility study of the Aqaba-Eilat Airport. The objective of the study was to allow the two airports in Aqaba, Jordan and Eilat, Israel to expand jointly and serve international traffic to both Jordan and Israel. There are now three Israeli flights a week which land in Jordan and transfer passengers to Israel. This number is increasing. As airport development continues, Jordan will have to invest in new air traffic control equipment. TDA is helping develop this important binational transportation link and also working to ensure U.S. firms have the opportunity to win new export business.

Since April, 1995, TDA has invested in a total of nine feasibility studies and two orientation visits in Jordan. Most of those studies were recently completed or are still ongoing, so the projects are still in the early planning phase. EBA Waste Technologies of Santa Rosa, California, for example, recently completed a \$525,000 feasibility study of a hazardous waste management project in Aqaba, Jordan. The firm is now working through negotiations with the government of Jordan to establish the first private waste handling facility in the country. Another TDA-funded feasibility study has enabled Mercury International Ventures of Jackson, Mississippi to begin negotiating with the Jordanian government to establish a VSAT telecommunications network service for the Jordanian banking sector. Together these two projects represent more than \$27 million in potential exports for U.S. firms.

Egypt: TDA has invested in two major projects in Egypt since 1992. An \$800,000 TDA training grant in 1992 helped Parsons Brinkerhoff

International of New York City win a \$34 million contract to develop Cairo's metro system. TDA provided \$300,000 in technical assistance in 1996 to the Egyptian Ministry of Maritime Transport which helped Lockheed Martin of Syracuse, New York win a \$40 million contract to provide a vessel traffic system for the Gulf of Suez. We are optimistic that two upcoming grants to the Egyptian Civil Aviation Administration to support airport development will be equally successful.

Gaza and the West Bank: The Declaration of Principles between Israel and the Palestinians was signed in September, 1993. A TDA project identification team was on the ground four months later. The U.S. group Builders for Peace also helped identify projects for potential TDA consideration. Though the commercial success of these projects has been limited, we have made important progress in laying the groundwork for projects which may be successful down the road. Construction of a hotel project we supported began, but is now on hold. The potato processing factory, olive oil processing plant, fuel refinery and fiberglass pultrusion plant have all stalled due to the challenges of doing business in this unstable environment. Developing successful businesses in Gaza and the West Bank is little easier than making progress in the peace talks, but TDA is committed to doing everything we responsibly can to make a positive contribution. We will continue to press for successful implementation of these and other projects as the business climate allows.

Lebanon: After the travel ban to Lebanon was lifted, TDA's staff scouting trip to that nation marked the first time U.S. government employees were able to land at the Beirut International Airport. TDA is already providing technical assistance to help evaluate proposals to modernize two other Lebanese airports. We believe Lebanon can be a valuable market for U.S. companies and are considering supporting other projects in the near future.

Mr. Grandmaison. Your point is well-taken, that that is a particularly sensitive and difficult area of the world to necessarily get the results that we would normally expect. However, we would argue that the development mission of TDA is key here, though we are a trade agency, and yes, export promotion is a key facet of why we are in business.

But the development mission of our agency must equally be serviced. In some of those cases, when you look at that area of the world, it may have been better, arguably, to invest in Brazil, as an example. But you still have a need to try to move the peace forward from a broader foreign policy perspective.

But let me give you a listing of where we are on that, and I would be happy to. In that particular case, we happened to work very closely with Builders For Peace, at the time, in trying to make sure that they had some resources to be able to fulfill their mission.

azerbaijan

Mrs. Lowey. I thank you, and Mr. Munoz, in another troubled part of the world it seemed to me, in Azerbaijan, there seems to be millions of dollars flowing into that region, and the Government somehow manages to get a good part of those millions of dollars.

Mr. Callahan. Did you say Azerbaijan?

Mrs. Lowey. Azerbaijan. Remember that?

Mr. Callahan. No. I remember Georgia.

Mrs. Lowey. Well, I do remember in Azerbaijan, somehow, Aliyev's son and relatives all seemed to be very involved in economic development in that region of the world.

Mr. Callahan. You are talking nonofficial.

Mrs. Lowey. Yes; yes. Excuse me.

In any event, in the FY 1998 bill, there was specific language clarifying that section 907 does not apply to OPIC, giving OPIC the green light to enter Azerbaijan.

If you could comment, Mr. Munoz, on what OPIC's plans are, if any, to support projects in Azerbaijan. Have you been involved there at all?

Mr. Munoz. Yes. First, I just wanted to just point out we see 907 as applying to OPIC. However, the language in the FY 1998 Conference Report, which we very much appreciated, clarified that in fact OPIC's support of U.S. private investors would not be subject to 907. That clarification was very helpful to us, since there is a lot of interest in that region of the world, and the primary interest, as you mentioned, is in the oil and gas field, although it is not limited to that.

Mrs. Lowey. I just want to say that many of us have been concerned that investments there should not negatively impact a solution to the Azerbaijan/Armenia Nagorno-Karabakh situation.

Mr. Munoz. I am glad you point that out because, clearly, at OPIC, we have an understanding, as we work in that region, that we are not to, as a Government agency, not to upset any balances, and not to show any favoritism to one country or the other, but, rather, that it is a region.

It is certainly a region in need for development and our approach will be very even-handed, making sure that we approach it in ways that do not disadvantage one country over the other.

So now that we have this clarification, I will be going to that region soon. We have not yet scheduled anything, but we will clearly make contacts with all the appropriate officials there. But in all our activities, we want to make sure that we are balanced, and not all of a sudden just paying attention to one country.

Mrs. Lowey. So at this point there really are no plans?

Mr. Munoz. Well, our plans are in fact to now make sure that we are active and that we are responsive. We have a lot of inquiries from U.S. investors who wanted to know when we were going to be open and what kind of activities we would be doing. So we can now be more responsive, now that the language has made it clear, that covering U.S. investors is not going to be a problem with 907.

So our plan is to move ahead, but now we can move ahead in a more balanced way.

Mrs. Lowey. I thank you, and depending on the Chairman's time schedule, if either of you or any of you would like to just comment on my first question about small business--do we have time, Mr. Chairman? Would you like to hear about that?

Mr. Callahan. I would like to hear about that, if you want to hear about that.

small and medium-size businesses

Mrs. Lowey. Okay. If any of you would comment on what you

are doing to aggressively reach out to small and medium size businesses and define for us, again, what do we really mean by a small business.

Because what I see, certainly in my district, the large corporations function very well. Whether it is GE or Pepsico, Citibank or PaineWebber. They do not need us. They know exactly how to find you.

What about the small and middle size businesses?

Mr. Harmon. First, I would like to say what I have said before to many people, and that is, many of the larger companies in the United States that do use us have many subcontractors and subdivisions, and are buying products from all sorts of people. We know, in fact, how many small companies participate in some of the large company transactions that we are financing.

But coming specifically to the small companies that we are dealing with, we have not done as much as we can do. We have made some progress. This year again we will exceed our mandated percentage of volume which is 10 percent.

We will be at about 15 percent of the money and about 80 percent of the transactions in the current year. We should be higher since there are over 100,000 small companies that export. However, we are dealing with about 2,000 a year and we have an active list of about 10,000.

It will be difficult, as we look ahead, with 426 people at the Ex-Im Bank, to find a way to reach, quote, thousands of small businesses. It will only come, in my opinion, from some kind of a structural change. That means more delegated authority.

We have about 80 banks that are under what we call delegated authority. These banks can act for us in their region. Through those banks we will probably be able to reach out to more. In addition, we need to do a number of things. We feel we have to make our programs a little simpler, and we are trying to do it. In fact, we will probably announce these changes next month. These changes will make our programs more user friendly, and people will be able to understand what it is we are doing.

Clearly, we will have to be able to respond quicker and we can with a simpler program. Furthermore, we are going to have to use our delegated authority to leverage our resources so that we can reach out to all these many small companies.

In the next few years, I am determined to find a way to get us to the next level of small business support, which will involve a significantly larger number of small companies all over the country.

I wish I could do it just by conferences, and by going out and talking in the country. But, you never seem to be able to cover enough, and you have to be able to do that. So we will continue to reach out whenever possible. For example, I was just in New York last Friday, at our New York regional office, talking to them. I am in Dallas on Monday and then in California.

Mrs. Lowey. I am sure Mobile, Alabama, right?

Mr. Harmon. Of course.

Mrs. Lowey. You want to take care of those small businesses.

Mr. Harmon. Any time that you wish me to be there, I will be delighted to be there.

Mr. Callahan. Well, you are welcome.

Mr. Harmon. There are small companies that we are dealing with all over the country so we will not do it by just my directives and our traveling around. It will come only by some significant structural change, and I call that using delegated authority.

Some day we will have the banks in this country working to explain our program, to market our program on some kind of a basis which is almost a joint venture. Then we will get to the thousands that we should get to.

Because if those small companies do not participate in the global economy, then it is a great loss for American businesses. We know 50 percent of our clients are small businesses, so we have got to find a way to get them involved in the global economy. One very interesting comment on our Korean experience is that it has resulted in us expanding our small business activity. We have been reaching out more to small businesses because they could not get the exports to Korea.

So sometimes a crisis enables you to suddenly reach a new market. But we have got to have--and we are studying it right now--a program which will be able to reach all those small companies.

Mrs. Lowey. Is there a level at which a business is too small? What are you talking about in terms of assets?

Mr. Harmon. No level is too small. We work with companies that have 25 employees. So I think that many, many very small companies could utilize our financing structure.

Mr. Callahan. How do you distinguish a small company from a large company?

Mr. Harmon. We use the SBA calculation. Most people refer to numbers of employees.

Mrs. Lowey. What about assets? I mean, you can have 25 employees with----

Mr. Harmon. We look at a number of criteria. What we use is the SBA guidelines and that uses the number of employees for manufacturing companies and sales/revenues for service companies. However, I am glad to get back to you to give you a more thorough answer on that question.

[The information follows:]

Ex-Im Bank Small Business Definition

As stated in Ex-Im Bank's charter, Section 2(b)(1)(E)(v), we are required to use SBA guidelines to establish whether a company fits the description of a small business. SBA's guidelines establish small business standards on an industry-by-industry basis. Small business standards are determined by classifying a product produced in or a service being acquired from the industry, as found in the Standard Industrial Classification Manual. For most industries other than construction and services, a company is considered a small business if it has no more than 500 employees.

Mr. Harmon. But you are right--it could be a very large company with 25 employees. It is possible. But there are some

limitations on that and we will come back and give you a more specific answer on that.

Mrs. Lowey. Thank you.

sub-contracting

Mr. Munoz. I would just like to expand a little bit on small business, repeating what Mr. Harmon said with respect to sub-contracting. We try to find out from our transactions who is actually getting all of the business and we also have discovered that over 50 percent of the suppliers to our deals are small businesses, even though the actual sponsor of a project may be a large business. Eventually it farms out so that U.S. small businesses are participating in this globalization, some of them, without even knowing it. I think that is an important element.

Secondly, last year, we had 24 percent of our projects were for small business----

Mrs. Lowey. SBA criteria, again?

Mr. Munoz. We use--it is multiple criteria. We will also provide you with that.

[The information follows:]

OPIC's small business definition includes industrial companies with annual sales of less than \$198 million or non-industrial businesses with stockholders' equity of less than \$67 million.

Mr. Munoz. One of the four priorities that I set out for myself when I was confirmed was to facilitate the small business investors in the globalization effort. As a result, we established a task force, immediately, to look at our product lines because the procedures we go through can be quite lengthy. They are quite costly also. That larger businesses can easily cope but small businesses not as well.

Our offices are only located in Washington. So when you get a small business from New York or California or Alabama, it is not that easy for them to deal with us. So we are trying to use technology and trying to use a streamlined process to reach this important group.

We will also announce, very shortly, the results of that task force which has already been speaking to banks and speaking to intermediaries that are working with small businesses, and we think we will be successful in coming out with good product lines.

We also think small business is the future, and that timing is everything. Small business has certainly shown to be the backbone of our economy here, and responsible for much of the growth in our economy. It will also, in its due course, become a backbone for the globalization taking effect.

We would love to be part of the pushing of that process a little quicker and safer, but I believe all of us are trying to make that as rapidly as possible.

Mr. Grandmaison. I agree with the points made by both of my colleagues. I think one of the first things that, when I first appeared before this committee or during an early meeting with Mr. Flickner--actually, not the first thing. The first thing

was he mentioned my party registration, as I recall.

[Laughter.]

But quickly, quickly, after mentioning that, was concern that our agency tended to deal exclusively with a certain cadre of companies, year after year after year. I think that we have acted on that very constructive and proper criticism, by going out and by working hard at bringing our program, making it known to small businesses.

It is not easy; all right. Part of what we have tried to do, internally, is to be able to wholesale through State trade offices, through trade associations, candidly, through Members of Congress who are willing to pull together the right companies in their district and go down and make a presentation. We have been successful.

A third of our program dollars go to small business. We would like to see that increase, and it will increase. Whereas you love to get a ``big win''--the Ogden Corporation--is a ``big win.'' It means a lot of small businesses and others will be selling products.

But the fact of the matter is maybe it is because we are a small agency, when you work with a small business and you are successful, candidly, at the most human level, it just tastes better, it is sweeter. I mean, you get more personal satisfaction from that.

So I think that is part of it--it is for our own staff, it is that much more exciting. But the moment you take your eye away from it, human nature being what it is, you then begin to do what is easier.

It is easier to work with the large companies because all of the information comes in exactly how you want it. What you have to do as management is reflect, continue to reflect and put pressure, that people will be judged on their ability to perform, small business being a very important asset. You have got to keep the pressure on.

Mrs. Lowey. Mr. Chairman, you have been very generous. I thank you so much, and I thank you, gentlemen, and I look forward to a continuing dialogue because I think your work is so very important.

Mr. Callahan. Following up on the small business, you mentioned in your statement that 62 percent of your activities, I guess you said were small businesses, and yet I think you just said that 33 percent of your money that is advanced and spent goes to small business. It is my understanding that the real purpose of your agency should be almost exclusively small business.

When you say ``small business,'' I mean, we are not talking about building dams for big companies. What is a ``big business''? What ``big event'' did you handle, or did you finance in the past year? What's big?

Mr. Grandmaison. Well, we do not finance. What we will do is provide grant assistance for the feasibility----

Mr. Callahan. Right. Well, what grants did you give to big businesses?

Mr. Grandmaison. Well, normally, we do not select the U.S. company that the foreign project sponsor chooses to work with, meaning, if we make an offer to the Ministry of Energy in Brazil, that is then--that feasibility study grant is then

advertised in Commerce Business Daily. U.S. companies submit their qualifications, in this case to the Ministry of Energy in Brazil, and they select the U.S. company that they work with.

Now, often, there will be--it is a consortium, more often than not, and there will be a large company in the lead, but they will employ several smaller businesses to work with them in terms of the subsector specialties necessary to fulfill the scope of services.

Now the reason for this discrepancy in terms of a third of our program dollars, and yet 62 percent in terms of the number of companies, is that we have programs that are reserved exclusively for small business. All of our desk studies must be done by small business. All of our definitional missions must be done by small business. When it comes to the feasibility studies, however, it's the grant recipient that selects the company that they work with.

The primary beneficiary, I would argue, of our orientation visits, bringing people here, are small business, because they would not necessarily get on a plane to go down to South America to meet with 40 project sponsors.

Mr. Callahan. The subcommittee, a great many of us are going to, we know at this point, Argentina, Bolivia, and Costa Rica. If you have any projects ongoing, any of you, we would like to visit those. I would like to see, firsthand, what you are talking about, and we do not want you to be able to select and choose which ones you want us to see. So why don't you just provide us with a list of all of your activities in Argentina and Bolivia and Costa Rica, and let us select what we would like to visit.

[The information follows:]

[Pages 76 - 78--The official Committee record contains additional material here.]

currency devaluation

Mr. Callahan. Somebody asked, this morning, about the problem with respect to the dollar valuation in Indonesia, and you mentioned that you do not have anything--I think you did, George--tied to their currency. It is all tied to our currency. Do any of you have any investments, anywhere, tied to any other currency other than ours?

Mr. Munoz. Well, if I may. Yes. I mean, outside of Indonesia, just any---

Mr. Callahan. Well, any.

Mr. Munoz. Oh, sure.

Mr. Callahan. I do not know why we would be tying, or making an investment with any country that is tied to another currency, other than our own. I do not know why you would be guaranteeing a project based upon someone else's valuation of a dollar. And I hope you are not.

Mr. Munoz. No. We do not do currency devaluation insurance, as an example, and whenever we have projects, dollars is the mechanism by which we operate.

But you can have a project whose main source of income, for

example, even a utility project, is in local currency. They may get paid in local currency but you still have to pay back the debt in dollars, the same fashion that we lent.

Mr. Callahan. So then when you go and invest, or guarantee an investment in Indonesia, you do not even take into consideration the potential--I know it is hard to project, all of you said that--what might happen. How do you protect from the devaluation?

Mr. Munoz. You cannot protect a 100 percent, but one way to do it is the contracts, the guaranteed take or pay contracts, that some of these power projects would have, and you would have it with a credible source who is committed to either taking it or paying for it, and in doing it in a way that translates itself into the right amount of dollars regardless of devaluation of the local currency.

The collateral that you ask for--if you are feeling that there is only local currency being brought into a project you look for more collateral. So I think there are ways to mitigate the risk. You cannot eliminate the----

Mr. Callahan. Do any of you have any risk? What about your currency situation? Do you, in any of your loans----

Mr. Harmon. All of our transactions are dollar-based.

Mr. Callahan. U.S. dollar.

Mr. Harmon. But, what Mr. Munoz has just said was very important and accurate. That is, if you are lending, let us say, to a project in Indonesia, and they have to service your debt over a period of years, in dollars, and as has happened--the rupiah has declined 75 percent--then they cannot receive enough revenue from any of their business--especially if it is tariffs relative to a utility. They cannot generate enough even to service the debt, which leads one to the conclusion that there will eventually be some kind of a ``rescheduling'' for all of Indonesia. This ``rescheduling'' is necessary so that the country can pay its external debt. Because unless there is a massive change in the value of their currency, or they go to a currency board that might have some impact, it is highly unlikely that Indonesia will be able to service the dollar obligations that they have. Therefore, some rescheduling, not necessarily a loss, but some rescheduling will take place in the future.

indonesia

Mr. Callahan. How much exposure do either of you have in Indonesia?

Mr. Harmon. We have \$3.8 billion.

Mr. Callahan. Million?

Mr. Harmon. Billion.

Mr. Callahan. Billion.

Mr. Harmon. \$3.8 billion, which is out of \$60 billion in our portfolio. So approximately 6 percent of our portfolio is in Indonesia, and there is no short term, it is all medium and long-term obligations, and a good portion of it is sovereign obligations. But even with a country guarantee, there are risks involved in Indonesia.

Mr. Callahan. Do you have any risks, George?

Mr. Munoz. Yes, we do. For Indonesia, the best measure of

what is really at stake, if things get worse, is what we have as our actual current coverage. You can have a company that can sign up for a high maximum potential insurance, but never really call on that insurance. They may only be covered for what they pay for as current coverage, and for the assets they have in place.

Even using that amount which is your least amount, it is approximately \$475 million, or approximately \$500 million of exposure, of current exposure.

Mr. Callahan. Which represents what percent of your worth?

Mr. Munoz. Well, that number represents a small percentage. If I look at the total liability, potential liability for Indonesia, it is about 5 percent.

Mr. Callahan. 5 percent?

Mr. Munoz. 5 percent; yes.

Mr. Callahan. I want to yield, immediately, but I want to ask one more question, to Congressman Yates.

Mr. Yates. Well, I want to ask the same questions you are asking, Mr. Chairman.

Mr. Callahan. Well, I understand that but you do it more eloquently than I do.

Mr. Yates. No, I do not. [Laughter.]

Mr. Callahan. So much more eloquent.

Ms. Pelosi. Oh, my goodness.

Mr. Callahan. Without putting you on the spot, can Indonesia make it? [Laughter.]

I mean, you have got to look at it. I do not know what the President Suharto said yesterday about the cartel his family owns, and the indication that he is giving. I know nothing about international finance, and I do not really want to know, but I mean anybody can look at the situation there and see it is insoluble, and so I mean, you might as well go ahead and say--not publicly, if you do not want to--I do not want to cause the stock market to go down, not that they pay any attention to what I say, but they do pay attention to what you say.

But it is insoluble, and they are not willing to make the necessary reforms. Basically, maybe he can. He has just been reelected for five years. But I think his family is going to stop him from making the decisions he has to make in order to resolve his problems.

Can Indonesia make it? Is this 5 percent, and this 6 percent of your portfolio--is it at serious risk?

Mr. Munoz. Well, since Mr. Harmon went first in the testimony, I think it is---

[Laughter.]

Mr. Munoz [continuing]. It is protocol.

Mr. Harmon. Well, I would say thank you. I thought everybody was so courteous on your side, yielding. I was waiting for the opportunity to yield myself, but it does not look like I can do it now. [Laughter.]

I would start with a positive statement. Indonesia will survive. I am confident, that in the years ahead we will do business in Indonesia. Indonesia has 204 million people. It is not an easy country since it is composed of 13,500 islands and 26 provinces. This is a difficult country, young country, but it has enormous advantages. It has an extraordinary--excellent,

technology base because they have brought in so much equipment in the last five years. They have made great progress over the last 32 years in economics alone.

So what do I really think? I think it is the darkest moment. It will be difficult for the next few years, but five years from now people will do business with Indonesia. It is too important a part of Asia, and it will be a market that the United States will sell to in the future.

It is today more a political problem than it is an economic problem, in many respects. If there are some changes there, I believe that there would be a lot of support in Asia for survival of Indonesia. When I say survival, I mean the viability of Indonesia.

So I expect some rescheduling of debt. I fully expect a very troubled economy with high inflation, high unemployment, and all sorts of potential political problems.

Mr. Callahan. You are from the banking community. If you were filling out a balance sheet like you did when you were in the banking community, how would you rate this 6 percent of your portfolio?

I mean, would you say it is at risk?

Mr. Munoz. Yes.

Mr. Harmon. I think much of our portfolio is at risk.

Mr. Callahan. Would you go ahead and write it off your taxes this year?

Mr. Harmon. No. Oh, no. I think we have adequately reserved, by reason of our requirements under credit reform. Each year we review our reserves based upon country lists. So we are adequately reserved in each of the countries.

I predict that there will not be massive losses--this will be a rescheduling problem where you will defer the amortization and we will get paid, in my opinion, a significant part, and therefore, the reserves that we have now are very adequate.

I do not think that this country is going to implode into a total collapse.

Mr. Callahan. Well, I see some financial institutions are writing them off and maybe that is for some tax advantage or something, in their own country. Maybe it is something that---

Mr. Harmon. In the private sector we commonly would write off, because, usually, if we took an extreme position, the stock of our company would go up in fact, and then we would have written it off to a level that allowed us to have some accounting advantages when profits came in.

So there is a real reason for the private sector to do that. We are obligated to review the risk each year, and determine the country risk, and to come up with a calculation which takes into consideration any changes. That is why our reserves are self-adjusting each year and are appropriate under the circumstances.

The private sector has a completely different reason for doing that.

Mr. Munoz. I would like to add that right now no claims have been made against our projects in Indonesia, and I am not sure that we foresee any, and only because when you look at the details of it, we have one financing project there, and again, it is a project finance. It is pretty much already operational, and the kind of danger it would face is the one that Mr. Harmon

referred to, where there may be some restructuring.

But we do not see that as going into a loss. As we look at the rest of our portfolio there, of the different stages in development that they are in, at the end of the day we are not anticipating that we are going to have any losses.

If we were to have losses, we do not think it would be anywhere close to our exposure, and we have good reserves.

I also want to underscore what Mr. Harmon said, which is Indonesia's survival is important, not only for the U.S. economy, but I believe for the global economy and how these things are treated. So I think everybody is working toward making sure that a disaster case does not occur.

Mr. Callahan. I want to yield now to Mr. Yates.

Mr. Yates. Thank you, Mr. Chairman.

Indonesia, you say your loans are about 5 percent, and at risk. Where else are you at risk with your loans?

Mr. Harmon. Are you referring to the percentage of our portfolio. If, so, it represents about 6 percent of our total portfolio.

Mr. Yates. Yes.

Mr. Harmon. What we do each year, now, under the Federal Credit Reform Act of 1990, is determine, based upon the so-called risk rating, which is established largely by interagency process, the amount of reserves needed to cover any anticipated losses. Each year, this is adjusted.

Indonesia is one of a number of countries where the risk rating is such that we have got to consider this to be in the, quote, higher risk area. Russia and the NIS is in the higher risk area. Africa is a higher risk area.

Clearly--I am probably missing some, right now, as I think about the higher risks--but Indonesia was downgraded by the interagency process a number of times since the crisis occurred.

The interagency process lowers or raises the risk factor, so it now is at a level of risk which reflects some of the higher risk markets. But the highest risk markets would be in the NIS, Africa, and even Russia has been upgraded a bit.

Mr. Yates. Are you required to go into higher risk markets because of international relations?

Mr. Harmon. No; we are not. Two things. We follow the exporter market, where there is demand, and most important, we are required to make sure it is creditworthy. So we have to believe that we are going to be repaid. That is the most important thing, putting aside environmental consideration, which is very important.

Mr. Yates. Are your standards the equivalent of private banks?

Mr. Harmon. That's a complicated question.

Mr. Yates. An interesting question.

Mr. Harmon. I will only say one thing to you, which is interesting, but it does not exactly answer the question. Our loss experience in the last 15 years is probably better than private commercial banks. Now, when people ask me why, especially my friends in the commercial banking world, my response is people do not default on the United States Government very easily. People are very concerned about that. So that is a major reason why we have as low a loss experience

as we do have.

Now, if you go back to the Latin American crisis, at the time of the early 1980's, it does change a little bit. Then we were in line with the other private sector banks.

But, we are probably as good as anybody at analyzing risks. I have spent--I hate to say how long, because no one in Government has spent as many years as I have in that sector--38 years in the private sector banking world. I would say that we are probably as good at analyzing the transactions as the private sector. We have as good a caliber of people analyzing the risk factors, and as good determining what is creditworthy.

Mr. Yates. You spoke of losses over the last 15 years. How much have you lost?

Mr. Harmon. Our loss experience is about 2 percent over that period of time. But, I do not have the exact dollar number for you.

Mr. Yates. Is that considered a good loss ratio for a private bank as well?

Mr. Harmon. Yes.

Mr. Yates. It is?

Mr. Harmon. Yes. They would clearly be higher. However, our loss experience would compare favorably, if you took the last 5 to 10 years, with the private sector banking world.

Mr. Yates. Do you have a feeling that you should pull back now, or that you should expand.

Mr. Harmon. I have a feeling that in most of my life, when times were difficult, my competitors shied away.

Mr. Yates. Is that the situation now?

Mr. Harmon. Yes. In Asia, it is; probably in the developing world it is. I think it is somewhat more difficult now. Most of my life, my competitors shied away and did not call on customers, did not make calls, and did not find out how they could be helpful, which is the reason that I went to Korea in the beginning of January, because I felt I should look in and assess what our problems were. This was also the case when I went to Indonesia to assess what our problems were, and Asia, generally.

I believe that our competition, the other export credit agencies, will shy away a little bit. Therefore, I think it is a time where we can help the American exporter by staying in the markets where we do not take undue risk. By being ``aggressively smart'' we are doing our job.

``Aggressively smart'' is the word I use in my office. It means to be tough but smart, make sure we do it the right way, and do not take great risks but be there in the market to help the exporter. That is what our job is and it is what we are doing in Korea now.

I do not think we are going to lose much money, if any, in Korea.

Mr. Yates. Thank you, Mr. Chairman.

Mr. Callahan. Let me ask a couple of questions, and then talk somewhat about the budget, which is the real reason you are here. You have the management system in place in each of your agencies for the year 2000 problem. Are each of you fully satisfied that your agencies are ready for that event?

Mr. Munoz. Yes.

Mr. Harmon. Yes.

Mr. Grandmaison. Yes.

Mr. Callahan. You are. Fine.

Okay. Let's just go, briefly, to the budget request. Each of you go through. We will take TDA first. The historical record. In 1997, you have \$40 million.

Mr. Grandmaison. Yes.

Mr. Callahan. In 1998, you were granted \$41 million. In 1999, you are requesting \$50 million.

Now that is roughly a 20 percent increase. You know how strained we are with respect to our allocations this year. We are not going to have an increase; we are going to have a decrease. So do not get too overly optimistic about the possibility of that \$50 million.

I know in your statement you testified, but I want to tell you, we are going to have some very, very serious problems coming up with an allocation sufficient to fund a 20 percent increase to anybody.

With the Ex-Im Bank, these figures are somewhat distorted, because in 1997, you had \$758 million. You requested, I think, in 1998, about \$600 million. What was the number they requested?

Mr. Harmon. \$632.

Mr. Callahan. \$632. We gave you more than that, because you actually testified that you needed more, and you know, we violated the President's request. We gave you more because we had faith in your agency.

Now you are coming with an \$824 million request, which is \$200 million more than your request for last year. That is a huge increase. I mean, that is a 30 percent increase, if I am not mistaken.

Mr. Harmon. Can I respond?

Mr. Callahan. Yes.

Mr. Harmon. We appreciated the fact that you did give us more last year, which I am informed, even though I was not here, that it was somewhat unusual to receive a greater amount.

As a result of being short last year, we deferred a little bit more than 200 million to this year.

Mr. Callahan. We do not show it. I mean, the executive branch came to the Congress and requested \$620 million. Are you saying they were irresponsible in their request?

Mr. Harmon. I would rather rephrase it more diplomatically, and say that, in hindsight, I look back on the people who made the estimate, and they were off the mark, by a fair amount. As a result, we could not complete all the business that we had in hand, and we were forced to defer a little bit more than \$200 million of program budget into this year, because we did not have adequate funds.

Mr. Callahan. So you are going to run out of money this year?

Mr. Harmon. Yes.

Mr. Callahan. When?

Mr. Harmon. Probably July.

Mr. Callahan. So then you are going to start spending October monies, or committing them as early as July.

Mr. Harmon. What we will do is, one, we are going to protect small business and those programs we have to protect. They will not be harmed. We will however, have to defer other

longer-term credits until October or November. And there are ways to do that without harming the exporter.

Mr. Callahan. Well, how much did you ask the administration for? What was your request to your immediate chain of command with respect to the budget request?

Mr. Harmon. For which year?

Mr. Callahan. This year. I mean, 1999. What did you ask for?

Mr. Harmon. \$808 million.

Mr. Callahan. You asked for \$808 million and they raised your increase?

Mr. Yates. Mr. Chairman, they are not asking for anything in the supplemental, are they?

Mr. Callahan. I do not know. They might.

Mr. Harmon. No.

Mr. Callahan. No, they are not.

Mr. Harmon. I have to go back for a moment because the numbers are confusing to get to. But the budget request and the demand that we see requires a program budget of \$1.3 billion.

Mr. Callahan. So you asked for \$1.3 billion this year, and they cut you down----

Mr. Harmon. For 1999. Fiscal year 1999.

Mr. Callahan. That is what I am talking about. For 1999. So they cut you significantly. So they do not have the same faith in you that we had.

Well, then why does the administration continue to request such a huge percentage number under what you tell them you need?

Mr. Harmon. Well, I think there are several reasons. Although we are at \$808 million now, the difference between \$808 million and the requested \$1.3 billion has to be filled. In our mind, this can be filled in several different ways.

One comes about because the Office of Management and Budget has done a recalibration, which will allow us to have buying power of another \$230 million.

Mr. Callahan. So you are saying--do you want us to appropriate the 824 you have asked, or do you want us to appropriate more, or less?

Mr. Harmon. One always can use more.

Mr. Callahan. I mean, last year your predecessor requested more and we gave him more. Are you asking for more?

Mr. Harmon. We can however, do the job that we need to do for the exporters on the amount that we now have in front of us, that the administration has recommended. But, to do it we will have to make several different program changes. In addition, we will have to possibly use some of the Tied Aid Fund.

Now, I could never refuse an offer of some additional funding because then I would not have to use the tied aid portion, and we would not have to change the program budget around a little bit.

But, in order to meet the demand that we believe is there, the \$1.3 billion, some of it is coming about through the recalibration--the calculation was done by OMB--and some will come about because of the estimated cancellations that we have.

Mr. Callahan. Let me just interrupt you here and tell you that our allocations are going to be tight this year, and we

are not going to be able to just arbitrarily increase you. When you start telling these businesses that you do not have enough money, you tell them it is because you did not request enough money.

Do not blame it on the Congress of the United States. And I want to tell you, if I hear one businessman come to me, and they tell me you or some of your employees indicated that the reason they cannot do anything between July and September 30th, or during the next fiscal year is because Congress did not give them enough money, which is what they have been telling them, we are going to have some problems.

We are going to give you a reason, and I hope you hear that message loud and clear. You tell them that you requested from the OMB, the President of the United States, \$1.3 billion, and they refused to follow up on that request, and as a result you did not get the money you needed. It is not Congress's fault.

The administration is asking for this money. You, as President, are the one who is asking for this money. So do not ever let me hear one more time that the reason there is an inability for Ex-Im Bank to have a sufficient amount of money is because of a shortage caused by the Congress, the Republican Congress of the United States. They do not even blame it on Nancy, and I was the one that got you the increase.

So, you know, I am concerned about that, and I do not want to hear that, and I want that message conveyed to your staff.

Now with respect to OPIC, your profit, and we are happy that you are still making a profit, went from 112 to 175, between 1997 and 1998. But you are projecting only 176, or a minute increase in 1999. Why is that?

Mr. Munoz. We are expecting a \$1 million increase. A lot of it has to do with 1997. While we had record income from our portfolio, 1997, this last fiscal year, was a difficult year.

The way our staff analyzed it, there were two components. One of them was uncertainty since 1996 and 1997, as to whether OPIC was going to be reauthorized or not. This caused some retrenchment in terms of some of the investors.

That also slowed down a little bit of the pipeline, of which you are seeing the effects. We think it will go back up.

The good news is that we are now seeing our registrations go up and there is a lot more interest at our door. I do not blame the private sector. The private sector, when they come to us know that no project gets done immediately. Unlike Ex-Im which has thousands of transactions, we will have less than a hundred. In some cases, in finance, for example, a project may take six months, four months, or the like, to work out.

Mr. Callahan. Ms. Pelosi.

Ms. Pelosi. Thank you, Mr. Chairman.

I know we have a vote so I will just make a few comments, as briefly as possible.

Just on the environment, Mr. Harmon, you mentioned that you were talking with some environmental groups about your environmental standards.

I remember when your predecessor came to my office and announced, with great pride, that you were following The World Bank standards, and of course I am not thrilled with those either, so I thought, no, we have got to have a higher standard. But at least it was a change from the past and

represented some greening of the Ex-Im Bank.

If you are meeting with groups--not now, but if you can get back to me about who those groups are--I want to make sure that it is inclusive of some of the organizations that have been active in international environmental issues.

[The information follows:]

[Page 88--The official Committee record contains additional material here.]

Mr. Callahan. Just a brief question on Indonesia. You said it was 6 percent, your---

Mr. Harmon. Approximately 6 percent of our outstanding exposure is in Indonesia.

Ms. Pelosi. Is in Indonesia. And of that 6 percent, do you have any--I may have missed it--any rate of default that---

Mr. Harmon. No, we have not had any experience, to date, of any losses, or even claims, right now, on the \$3.720 billion we have outstanding.

Ms. Pelosi. Okay. Just a closing point, and that is the argument that we make to justify this funding for the Ex-Im Bank with our colleagues, when they think that the free enterprise system should be just that, not with Uncle Sam holding your hand, is that this creates U.S. jobs.

As you talk about your portfolio and what you are doing in different parts of the world, I would hope that there would be some balance in terms of creating these jobs in different parts of the world, and to create markets also for U.S. products. That is always part of it.

But the concern that I have at the Ex-Im is the rumor that you hear from time to time about reducing the amount of domestic content required.

There was at one point the notion--and I will not say elevated to the level of idea--the notion that the domestic content would be changed. Overseas content now is allowed as 15 percent, Mr. Chairman, and that meant that 85 percent of the content would be made in the USA, therefore promoting U.S. jobs.

There was one thought of raising that to, guess how much? 100 percent content could be foreign-made, and that still was going to, supposedly, create U.S. jobs. That is very sophisticated thinking; maybe too sophisticated for some of us. I would caution you that that is something that would never fly around here, and in fact would do a great deal to undermine the Ex-Im.

So, again, as you look at your portfolio, I do not know how you compare infrastructure projects, or exporting of U.S.-manufactured goods abroad in determining how you decide on a loan, but it seems to me that the ones that are goods manufactured in the U.S. for export, to finance the loans on those creates many more U.S. jobs than an infrastructure project in another country.

I just bring up this issue because to the extent that you justify the creation of U.S. jobs, I think that the Ex-Im will enjoy a great deal of support and popularity here. But I hope

that you would not get ensnared in this movement to diminish the number of jobs created, while still trying to justify the reason why we have the Ex-Im Bank. That is really all that I have to say, Mr. Chairman, unless Chairman Harmon would like to respond to that.

Mr. Harmon. I give you my assurances that there is nothing pending right now, nor are there any discussions that I am aware of to change the content question.

Also I want to give my assurances to the Chairman, that in no way will anybody allude to, should we run short of funds, that there is any fault of Congress, although we are talking about 1999. In 1998, I was not here.

Mr. Callahan. And I mentioned your predecessor.

Mr. Harmon. I do appreciate your comment.

Mr. Callahan. Well, I want your employees to understand, too, that Congress did not cut you.

Ms. Pelosi. Mr. Chairman, I would like to say that I think we are very well served by the people in these positions, and thank them. I join you in thanking them.

Mr. Callahan. Yes. Thank you.

Mr. Munoz. Mr. Chairman, could I just add to my last question in terms of how much was being contributed to negative outlay. Again, I want to say OPIC is positively contributing. But one other reason for the smaller number is we and our accountants, look at our reserves and our allocations, and determined this would be an appropriate time to allocate a greater percentage of income to reserves.

Mr. Callahan. I understand that, but if you were a public company you know that would make your stock go down, do you not? The value of your stock, if, indeed, your projected profits, which were going up, suddenly leveled off?

Mr. Munoz. It depends on what the reason is. If they look at our portfolio, actually our asset strength and equity is strong, so that will also----

Mr. Callahan. Right. Our stockholders are out there on the floor of the House. We have been arguing all this time that this is a good investment. We are getting a return. Look at this. We came from \$100 million to \$175 million. We are doing great, and all of a sudden it stops. After we get you more money or more authority, it stops. Now we do not have as great a message as I would like to give to the House. Plus, it costs me money.

Mr. Munoz. Right.

Mr. Callahan. You see? Because I was counting on that additional \$75 million to give to the Ex-Im Bank.

Mr. Munoz. You were counting on the extra growth; right.
[Laughter.]

With the two year reauthorization, we will make you proud.

Mr. Callahan. Thank you very much.

[Questions and answers for the record follow:]

Submitted to Trade and Development Agency

Questions for the Record by Mr. Kingston

Question. I was impressed by criteria outlined in the Congressional Presentation that TDA uses to assess potential projects. I am

interested to get an idea of how tight these criteria actually are when applied in the field and how strictly they are enforced. About what proportion or percentage of potential projects which are considered under these criteria are actually awarded grants?

Answer. Of the formal proposals TDA considers, about one in five ultimately receives TDA grant assistance. Many potential projects are screened out before they ever reach the proposal stage, however. As you know, TDA does an extraordinary amount of outreach. We make our selection criteria clear in all our materials and presentations. This discourages many inappropriate projects before their proponents bring them to us. In addition, the informality of our application process in the early stages--a phone call is usually all that is needed--also allows many projects to be culled out before we receive an actual proposal.

TDA's criteria are applied strictly, though they are not inflexible. It is sometimes difficult, for example, to demonstrate with certainty the degree of foreign competition U.S. companies face on a particular project. In addition, where a small U.S. company is the chief proponent of a project, we might be more flexible on the required level of potential U.S. exports. These exceptions aside, if a project does not meet our criteria, it will not receive TDA assistance.

Question. After a TDA feasibility study, what proportion of the value of the following development projects and all that later flows from them have generally/historically been directed to U.S. companies?

Answer. About one-third of TDA projects ultimately result in U.S. exports. On average, every dollar TDA invests is associated with \$33 in U.S. exports.

Question. The Congressional Presentation says that exports generated by TDA is a primary reflection of TDA performance. By what measure does TDA develop a sense of the difference between exports its efforts generate and those that U.S. firms would have won anyway on their own merits? How is that difference assessed? Is that difference an official factor in its results indicators?

Answer. We can rarely say with absolute certainty that a company would not have been successful without TDA's participation. We do know, however, that if the French or the Japanese control a project from the beginning, U.S. firms are generally locked out of that project.

TDA only takes credit for facilitating U.S. exports when a TDA activity has made a ``significant contribution'' to a company's success. Our evaluations staff bases this judgment on conversations with the companies, host country project sponsors, officials at multilateral development banks, and others. We attempt to be as conservative as possible in order to allow realistic judgments of TDA's export success.

Question. I think your initiative to expand private partnerships by cost-sharing on preliminary studies and assessing ``success fees'' is excellent. Private investment in the risk is obviously good business and could increase success rates. I also gather from your material that it could effectively result in up to a 33 percent increase in the feasibility study budget (if an extra \$.51 is leveraged on each \$1 put forward by TDA). How has this been factored into your budget request for Fiscal 1999? Could that increase alone bring your funding power up to \$50 million?

Answer. U.S. company demand for feasibility study assistance always exceeds our available resources, even with the expanded impact we achieve through cost sharing. In addition, total U.S. government support for feasibility studies on behalf of U.S. firms is still far

smaller than that of our competitor nations. Leveraging our budget through cost sharing is one of the few ways we are able to meet that competition, though it does not make up the shortfall with other nations.

The expanding ``funding power'' of TDA's budget has been considered implicitly in the FY 1999 budget request. Cost sharing allowed TDA to support \$47.6 million worth of feasibility studies during 1997 with just \$31.5 million in tax payer-funded feasibility study investments. The FY 1999 request of \$50 million, of which roughly \$39 million would probably fund feasibility studies, implies a request for \$59 million in feasibility study ``funding power.''

Questions for the Record From Ms. Kaptur

Question. Each of you lead an organization dedicated to the facilitation of exports from the United States. One thing that continues to disturb me is our predilection for quantifying our exports and imports solely on the basis of gross value rather than looking more carefully at the quality of our exports and imports. I would be interested in knowing whether your organizations keep track of what kinds of exports your projects generate for the U.S. Particularly, I would like to know if you can distinguish between capital good and commodity exports so generated and in the case of capital goods, whether the commodities produced through the employment of those goods are sold in developing markets or are exported back to the U.S. or other industrialized countries?

Answer. TDA's core objective is to help create jobs for Americans. We would oppose any investment of TDA funds in a project that would hurt U.S. workers. This position is at the heart of every decision the agency makes.

TDA keeps careful track of the exports associated with our activities. Our evaluations office tracks each and every investment we make and records U.S. companies sales to TDA-supported projects. Since we focus on infrastructure projects, exports associated with TDA activities are almost exclusively capital goods. Infrastructure projects in areas such as transportation, power generation and transmission, water and wastewater, or telecommunications require substantial capital goods imports, but do not generally involve production for export to other markets. We have also supported some projects that require U.S. manufacturing machinery. TDA supports local manufacturing projects, however, only in cases when the manufactured products supply an exclusively local or regional market where U.S. exporters are not active.

Questions for the Record by Mr. Obey

caspian region

Question. TDA will hold a conference in May to bring together oil, gas, power, mining and transportation companies with the goal of strengthening US business opportunities in the Caspian Sea region. Can you expand on this and explain why these sectors need TDA's help?

Answer. TDA's upcoming Crossroads of the World conference will target 65 projects in, power, transportation, mining and oil & gas which are slated for near-term development in the 13 nations of the Black Sea, Caucasus and Central Asia regions. Together, these projects represent more than \$20 billion in export opportunities for U.S. firms. The host country sponsors of each project will attend the conference to

make public presentations and be available to meet one-on-one with the roughly 200 U.S. executives participating.

TDA is highlighting these four sectors at the conference because they represent enormous business opportunities for U.S. firms and because our competitor governments are working actively on behalf of their firms in these areas. We also believe that these sectors are the most crucial to these Central Asian nations' current development needs. Some of the projects presented at the conference may also be appropriate for future TDA feasibility study support. Should we receive any such proposals, we will review the merits of each one on an individual basis.

Question. Mr. Grandmaison, your statement indicates that you anticipate at some future time the payment by private companies of success fees to TDA. How much in potential fees do you anticipate eventually from the 37 projects from which potential fees may be collected?

Answer. We do not as yet have precise estimates of success fee receipts. The program is new and the nature of the projects we support under this program is different from TDA's traditional public sector projects. Of the 37 projects included in our first review, for example, the vast majority are still in the early planning phases. In the past, a third of our feasibility studies have produced U.S. exports. Whether the success fee projects will follow past patterns is unclear. We continue to fine tune the program to make reporting requirements clearer and the success fee criteria stricter. These changes too will impact anticipated receipts. We do understand the importance of being able to make estimates of future receipts, at some point, and look forward to working with the Committee as the success fee program matures into the fee recovery stage.

Will we continue to require success fees, cost sharing and many other cost-conscious measures in every possible case to reap the maximum benefit for U.S. exporters from the funds the Congress has entrusted to us.

Submitted to Ex-Im Bank

Questions for the Record by Mr. Kingston

Question. Mr. Packard asked an excellent question at our hearing regarding Secretary's promise of increased Ex-Im Bank activity to assist trade with Ukraine in return in part for their cancellation of a deal to provide turbines for nuclear reactors in Iran. He asked how this promise figured into budget planning for Fiscal 1999. I would like to follow up on that question. I would like to know how it would be technically possible to fulfill a commitment like this on the part of Export-Import Bank, because I understand your assistance to be generated by demand. In other words, you have little or no ability/authority to direct your assistance because you deal with each project as it walks in the door and evaluate it based on established criteria. Can you explain how a commitment like this could be engineered?

Answer. Ex-Im Bank follows market demand and considers the creditworthiness of transactions, as well as our environmental guidelines, as the application are submitted. Ex-Im Bank funding is not delegated in advance to certain countries or sectors, except that 10% must be set aside for small business transactions. We are currently open in Ukraine for short and medium-term business in the public sector.

Questions for the Record by Mr. Obey

asia crisis

Question. Given the postponement of the next tranche of IMF funds for Indonesia, and the likely adjustment in payment schedules for existing Ex-Im projects in Indonesia, how can you justify additional short-term financing for them. Will sovereign guarantees be necessary and can they do that under the current plan.

Answer. Ex-Im Bank intends to provide additional short-term financing support only with a sovereign guarantee from the Government of Indonesia. Should we receive a sovereign guarantee, representing the ``full faith and credit'' of the country, it will be to insure only short term letters of credit. This would enable the country to import essential basic materials required from the U.S., which at present they are unable to do as the private sector is not willing to accept Letter of Credit's without Ex-Im Bank. These short-term transactions are low risk and would enable Indonesia to continue to buy from the United States.

Question. In the long term doing business in Asia becomes more difficult. As demand for imports within these countries decreases and the currencies weaken, the pressure to export to the U.S. increases dramatically. How does Ex-Im intend to accomplish its main objectives--preserving and strengthening U.S. jobs--and at the same time continue to expand its programs in Asia.

Answer. In previous economic downturns in various regions, Ex-Im Bank has generally experienced the following pattern: initially an increase in short-term business occurs, which is subsequently followed with a higher level of medium-term activity and then, lastly, the return of long-term financing requests. For any request, Ex-Im Bank will undertake its due diligence and closely analyze the financial statements as well as the intrinsic fundamentals of the borrower, such as: whether the company is a foreign exchange earner vs. an earner of local currency, details of the company's foreign currency assets/liabilities, the company's strategy for mitigating foreign exchange losses etc., as well as closely examining the company's cashflow projections and its underlying assumptions. Such thorough analysis enables Ex-Im Bank to make sound credit judgements so that credit worthy projects can continue to be financed by the Bank in support of U.S. exporters and U.S. jobs.

Ex-Im Bank understands that there may be pressure by Asian companies to increase their exports to the U.S. However, in reviewing transactions at Ex-Im Bank, we assess whether any loans or guarantees are likely to cause substantial direct injury to U.S. industry, and do not extend such support if it would have a net adverse economic impact on U.S. production and employment.

china

Question. Ex-Im Bank's total exposure in Asia exceeds \$13 billion with the largest exposure being China at \$4.8 billion. How do you assess the effects of the Asian financial crisis on China, and will Ex-Im programs in China continue to grow or will they contract.

How will China maintain the 8% annual growth rate in their economy (that being the rate of growth they specify as necessary to maintain social stability and job growth) in the face of shrinking economies in all surrounding countries.

Answer. Despite its size and its position, China is affected by the current Asian crisis. Our analysis shows that lower GDP growth is

anticipated for the immediate future due largely to overproduction and a slowdown in exports and foreign direct investment inflows. The government hopes to stimulate GDP growth by encouraging domestic demand. To that end, the government has lowered interest rates to spur investment and is initiating a mortgage banking system to encourage borrowing for home ownership.

Still, the government has said that it will not attempt to spur exports and GDP growth by engineering a sharp devaluation of the renminbi. While perhaps stimulating exports, a devaluation could further dampen foreign investment inflows, raise inflationary pressures, make the Hong Kong dollar peg more vulnerable and cause new friction with the U.S. over a ballooning bilateral trade imbalance.

Based upon information provided by U.S. exporters, there continues to be strong demand in China for U.S. goods, particularly aircraft.

russia

Question. A considerable portion of the interest in demand for Ex-Im Bank's resources comes from new opportunities in Russia. This increase has occurred despite the volatility of this market and the fact that Gazprom does not intend to utilize the Memorandum of Understanding for financing. Explain first what happened with Gazprom, and how their actions relate to U.S. laws regarding their work in Iran.

Answer. Gazprom was concerned over the prospects of becoming a sanctionable party under ILSA because of its activities in the energy sector in Iran. One of the possible sanctions under that act would be a prohibition on Ex-Im Bank financing. Instead of running the risk of becoming subject to possible sanctions, Gazprom chose to act unilaterally and advised the Bank that it did not intend to utilize the financing that has been contemplated under a Memorandum of Understanding signed between Gazprom and Ex-Im Bank in November 1994.

Question. Expand on what the new areas of demand are in Russia for Ex-Im resources, and the factors that make this market volatile. Why do you feel more confident about the business climate there for American investors.

Answer. Since dissolution of the Soviet Union in 1991, Russia has enjoyed a remarkable period of political stability that has allowed market forces to operate for the first time in more than seventy years. The economic and legal conditions in Russia also appear to have settled down and a real private sector has emerged. Moreover, privatization has spread to most sectors of the Russian economy, and has, in turn, generated Russian interest in playing more-or-less by the same rules as the West. These developments are encouraging Russia to become more deeply integrated into the global economy. Consequently, Ex-Im Bank staff believe this trend will continue since both government and business leaders are intending on pursuing this course, particularly in view of the Asian financial crisis.

To encourage further privatization, Ex-Im Bank is using its programs to target the Russian private sector in two ways--first, by working with Russian commercial banks to meet the needs of their clients to purchase U.S. goods and services and second, through the use of project finance and project finance-type structures on projects in the energy, mining and other sectors which can generate the revenues needed to repay the financing, without the need to rely on government guarantees. Without neglecting Moscow and other centers, Ex-Im Bank is reaching out to the regions as well where there is strong demand for U.S. goods and services. Another area of strong demand has opened up in the aircraft sector, after trade and market accords were negotiated between the U.S. and Russia. Ex-Im Bank is now in a position to support

both the export of engines and avionics to be incorporated in the IL-96 aircraft manufactured in Russia, and the export of U.S. aircraft urgently needed to upgrade and modernize the Aeroflot fleet.

tied aid credits

Question. Mr. Harmon your testimony indicates the intention to use funds from the Tied Aid Capital Fund, or ``warchest'' as it is known, for non-tied air transactions. That action combined with other possible tied aid cases may bring the fund down from \$326 million to \$200 million. Activating this fund also poses the risk of inviting other countries to resume predatory trade practices. Given the pressures of the Asian crisis on Japanese and European banks that pressure is likely to increase. Why have you chosen this path rather increasing fees for US companies, or some other alternative.

Answer. Ex-Im Bank prefers activation of the Tied Aid Capital Projects Fund for non-tied aid cases for the following reasons:

Given Ex-Im Bank experience and expectations, the remaining amount should be sufficient to support a competitive and aggressive tied aid matching strategy for the foreseeable future.

While the risk of inviting other countries to resume predatory trade practices is not insignificant, that risk is only possibly an indirect threat to the competitiveness of a HANDFUL of exporters a year. All other options imply a certain and direct reduction in competitiveness to hundreds of exporters each year.

The Board considered a number of options including raising fees to meet exporters' demand for scarce resources for FY '98. It decided that because of the economic crisis in Asia, this was the wrong time to take an action that could further compromise the ability of U.S. exporters to finance exports to Asia.

Question. What tied aid cases are you anticipating.

Answer. For FY 1998, estimated projections under the Tied Aid Capital Project Fund total less than \$25 million in authorizations.

Question. When do you anticipate revisiting the increase in fee issue.

Answer. The issue of what steps (if any) Ex-Im Bank should take to best match the competitiveness mandate with available resources will next be reviewed in July of this year.

small and medium-size business

Question. Given the increasing demand for small and medium size business loans and guarantees, should Ex-Im expand its current 10% minimum target for small business.

Your testimony indicates a \$200 million level for small business and ever increasing demand. What were actual demand figures for small business this year and where do you anticipate them going in the future.

Answer. There must be some confusion in the numbers because the \$200 million you cited in your question is incorrect. In Fiscal Year 1997, Ex-Im Bank authorized almost \$1.8 billion in support of small business exports under our loan, guarantee and insurance programs. Small business transactions represented 15% of all authorizations and 82% of the number of transactions. As of March 1, we appear to be leaping ahead with small business authorizations at 21% or \$566.4 million and 81% of the number of transactions.

At present, we expect that Ex-Im Bank's small business support will equal last year's almost \$1.8 billion. However, it is too soon to predict other variables that may affect Ex-Im Bank's numbers, most importantly, the demand for Ex-Im Bank insurance coverage for exports to Thailand and Indonesia. This is particularly relevant since small

businesses are heavy users of Ex-Im Bank's insurance program.

risk versus new credit scoring

Question. Mr. Harmon, according to your testimony the Ex-Im Bank intends to do a number of things in Asia that will increase your exposure for what you admit are riskier transactions. At the same time, OMB is planning to implement a new system of assessing transaction risk which will result in lower subsidy amounts being set aside to cover risk. Explain why these two actions are not contradictory.

Answer. OMB has updated the risk premia used in subsidy calculations to better reflect the market spreads on developing country debt. Some of the risk classifications will have increased risk premia, whereas some will have somewhat lower risk premia. The updating of the risk premia to better reflect the market improves the quality of the subsidy estimates.

The transactions that we do in Asia and elsewhere have the amount of program budget set aside to cover risk commensurate with the specific risk category of the transaction and the fees the Bank charges. The new risk premia calculated by OMB should improve our estimates of the amount of program budget necessary for any given risk category. Therefore, it is not at all contradictory to approve transactions in markets which are more risky today than they were in the past, and to use the best available information to estimate the program budget impact of those transactions.

Question. When will this new system be implemented, during FY 1998 or 1999.

Answer. The new risk premia will be implemented for transactions approved in FY 1999.

Question. It appears that the new system of assessing risk is based on the difference between interest expense of U.S. Treasury securities and the debt of equivalent term on the countries in the risk category in question. This appears to have taken any U.S. corporate sector assessment of risk out of the calculation. Why is the new system a more accurate method of assessing transaction risk.

Answer. The appropriate spreads to use for the risk categories are the ones based on actual issues of the countries in those risk categories. However, evaluations by bond rating agencies of the relative riskiness of various countries is taken into account in assigning risk classification to countries and transactions.

Question. Can this new system of risk assessment be implemented without Congressional approval.

Answer. The updated risk premia are part of the technical parameters for the calculation of specific amounts of program budget needed for specific transactions, and does not need Congressional approval.

Questions for the Record by Ms. Kaptur

Question. I am concerned about some of your testimony relating to the Export-Import Bank's response to the current Asian financial crisis. In particular, you indicate that the Ex-Im Bank will now do over \$750 million in short-term insurance in Korea and say that the Bank could commit up to \$3 billion in short-term financing in Korea, Thailand, and Indonesia.

Respected economists have told us that an over-reliance on short-term, foreign denominated loans played a significant role in precipitating the Asian crisis. What assurances do we have that providing new short-term, dollar denominated loans is not just

reinitiating the same cycle?

You state that ``what Korea needs, as well as Indonesia and Thailand, is access to short-term trade finance so they can continue to import goods and services. Without this access, these markets could grind to a halt, to the detriment of U.S. exporters with a resulting loss in U.S. jobs.'' I certainly am dedicated to the creation and preservation of American jobs, but I ask, is your prescription for the Asian economies based on what is best for those countries or what is best for the U.S.? I would suggest that we are all better served by developing strong internal economies in these countries rather than leaving them vulnerable to the vicissitudes fickle international capital movements and short-term investments.

Answer. Ex-Im Bank would be prepared to consider additional amounts in South Korea above the \$750 million for short-term insurance with a sovereign guarantee. We are having discussions with the Government of Thailand as to an appropriate structure so that we can support short-term insurance activity in that market. For short-term insurance in Indonesia, we are considering various options based on a possible agreement on policies that could be supported by IMF funds.

Ex-Im Bank, as well as other ECA's, have a unique role in international trade and are well positioned to support and supplement the financing of trade in the Asian region, recognizing that a lack of financing restricts trade flows in the various Asian economies, has a detrimental effect on the local Asian economies, and limits the export of goods and services to these key markets. If Asian companies are unable to obtain short-term financing for the much needed imports of goods and services to keep their companies going, then these entities are very likely to experience further deterioration in their financial condition from their present circumstances. Consequently, such support from Ex-Im Bank is mutually beneficial to the Asian economies and to U.S. exporters--the Asian private sector needs raw materials and other inputs to produce goods for domestic and foreign sales. However, if Ex-Im Bank does not provide short-term financing support in a prudent manner, then the Asian economies will purchase these essential goods from other countries supported by their ECA's, to the detriment of U.S. exports and U.S. jobs.

Question. Each of you lead an organization dedicated to the facilitation of exports from the United States. One thing that continues to disturb me is our predilection for quantifying our exports and imports solely on the basis of gross value rather than looking more carefully at the quality of our exports and imports. I would be interested in knowing whether your organizations keep track of what kinds of exports your projects generate for the U.S. Particularly, I would like to know if you can distinguish between capital good and commodity exports so generated and in the case of capital goods, whether the commodities produced through the employment of those goods are sold in developing markets or are exported back to the U.S. or other industrialized countries?

Answer. Ex-Im Bank does track the exports it supports and particularly investigates where the output of capital goods may be sold. We address this issue under our ``Economic Impact procedure'' whereby we screen all capital goods transactions for the possibility of a negative impact on U.S. industry.

Submitted to OPIC

Questions for the Record by Mr. Porter

environment

Question. Why has OPIC decided to reduce the period of time the public has to review Environmental Impact Assessments to 60 days, given that the US federal standard is 90 days?

Answer. We would like to clear up any confusion that might exist, especially since OPIC has taken a progressive position on environmental matters. OPIC is the first government-backed political risk insurer, bilateral or multilateral, to require public disclosure for EIAs. OPIC has actually increased the time period for public disclosure of Environmental Impact Assessments (EIAs) from a previous policy of 30 days to 60 days.

OPIC is subject to the EIA requirements of Section 117 of the Foreign Assistance Act and Executive Order 12114 and operates its programs in full compliance with the provisions of the legislation and Executive Order.

Question. Since OPIC is a US Government agency which extends financial backing for these Investment Funds, why does it not employ the standard US federal practice to require advance disclosure of EIA?

Answer. The capitalization of an Investment Fund per se does not have any environmental impacts. It is not until a Fund begins identifying investments that prospective Fund investments in environmentally sensitive projects require Fund Managers to submit EIAs to OPIC.

OPIC-supported funds make equity investments in companies in emerging markets. These investments are subject to the same environmental rules as direct loans or insurance projects, and each proposed investment to be made by the fund must be approved by OPIC in advance. The fund proposing an investment must submit to OPIC an EIA on any project which has a certain level of environmental risk, and this is used by OPIC's compliance department as a basis for its determination that the investment is or is not acceptable.

OPIC does post country and sector information on pending Investment Fund projects requiring an EIA on its Website. However, the identity of proposed investments is considered business confidential by the Funds and by OPIC. The disclosure to other potential investors would allow competing investors to know that the fund proposes to invest. Further, the timetable of investment usually is too short to allow for a disclosure period.

greenhouse gas emissions

Question. Given that the Administration and Congress are seeking to reduce greenhouse gas emissions from developing countries, why is OPIC financing an ever increasing number of fossil fuel projects in these same countries?

Answer. OPIC has supported a significant number of electric power projects during the last few years. These projects are designed to meet the increasing demand for electricity in developing and emerging markets. Helping these countries increase public access to electricity is consistent with OPIC's primary development mandate.

A large majority of these projects use natural gas or hydro-power as their primary fuel source. Depending on the technology involved, natural gas emits between 30 and 60 percent fewer greenhouse gases (GHGs) than coal and oil-based fuels, and hydro produces no GHG emissions. Where coal or oil is involved, OPIC considers the project in the context of the country's overall energy supply and demand balance, along with other factors such as the combustion technology used in the project. In all current projects, OPIC is applying the Administration's

draft Action Framework for Mitigating Greenhouse Gas Emissions in Developing Countries. OPIC would of course implement whatever more specific policy Congress and the Administration may agree on with respect GHG emissions in developing countries.

extractive and infrastructure projects in primary forests

Question. OPIC will not back extractive and infrastructure projects in primary tropical forests. While this is responsible policy that I commend, why does OPIC not extend it to other forest ecosystems, such as boreal forests of Russia?

Answer. OPIC's decision to refrain from supporting extractive and infrastructure projects in primary tropical forests is motivated by three factors. These factors include: (1) the unsurpassed degree of biodiversity to be found in primary tropical forest ecosystems; (2) the rapid degradation and disappearance of such ecosystems due to population and commercial pressures in developing countries; and (3) consistency with the policies of multilateral institutions such as the World Bank.

None of these factors apply to other forest ecosystems (such as Russian boreal forests) to the same extent as to tropical primary forests. The diversity and abundance of species is considerably less in boreal forests than in tropical forests. Primary boreal forest ecosystems remain vast and are not under population pressure. The Majority of the Russian land mass consists of such forests, much of which remains inaccessible to commercial harvesting. Finally, prohibitions on extractive and infrastructure projects in such forests are not in effect, nor are they being contemplated, in any multilateral institution with activity in these regions.

Question for the Record by Mr. Kingston

nationalization

Question. I have been approached by U.S. company representatives who are very concerned about potential nationalization of their investments in certain Asian countries as a result of the current financial crisis there. Because OPIC studies political risk very closely, I am interested in your assessments of the danger of U.S. capital investments in countries such as Indonesia for example being lost to nationalization. Are the risks in some areas becoming too great for even OPIC to insure against?

Answer. In the wake of the Asian financial crisis, the risks facing U.S. investors have increased on several fronts. Various factors have contributed to this change, including economic decline throughout the region and the increased potential for political and social instability. Moreover, uncertain legal and regulatory frameworks have increased concerns about potential protection and remedies and heightened fears of government intervention. While outright nationalization remains unlikely given the Asian countries integration into the world economic system and their need for Western support, government actions to rescue the economy could have unintended adverse effects on some projects.

Each project underwritten by OPIC is carefully reviewed and the risk attendant to that project is rigorously analyzed. In addition, throughout OPIC's history, careful portfolio management has been a hallmark of OPIC operations. OPIC protects its portfolio by maintaining a diversified balance of projects based on investments in various regions, countries and business sectors. Because of our diversification, problems that arise from time to time in specific

regions where we do business do not threaten our overall portfolio or financial health. OPIC's combined Insurance and Finance current exposure in all of Asia is \$1.8 billion, or roughly 19 percent of the total portfolio. In Indonesia, our combined current exposure is \$475 million, representing only 5 percent of our total portfolio. And even this amount overstates the actual OPIC risk since OPIC would only cover the actual investment made, which currently is substantially less than the \$475 million.

Questions for the Record by Mr. Obey

africa

Question. Mr. Munoz, OPIC is assessing the possibility of new programs in several countries in Africa. How will the passage of the Africa Growth and Opportunity Act enhance OPIC's ability to operate in Africa.

Answer. OPIC, as an instrument of U.S. foreign policy, looks to the priorities of the U.S. government in focusing its attention and efforts. With support from the Administration as well as broad support from Congress for promoting economic development of Sub-Saharan Africa, OPIC will launch its largest concentrated fund(s) yet. In addition, we maintain a portfolio of nearly \$750 million in 15 different countries in the region. We have financed and insured everything from a small ecotourism project in Botswana to a telecommunications project in Tanzania. The Africa Growth and Opportunity Act calls on OPIC to ``exercise the authorities it has to initiate 2 or more funds in support of projects in the countries in sub-Saharan Africa.'' Consistent with the intent of the legislation, we launched the \$150 million Modern Africa Growth and Investment Company fund last fall. In South Africa, on March 28, President Clinton announced OPIC's intent to solicit and review qualified applications for fund managers to fulfill the second half of the initiative called for in the African Growth and Opportunity Act. This initiative will likely yield an additional fund or funds for sub-Saharan Africa in the area of infrastructure.

Question. Could you update the Committee on the status of the placement of investments from the New Africa Opportunity Fund (\$120 million from private and OPIC sources).

Answer. The New Africa Opportunity Fund is a \$120 million fund capitalized with private equity and OPIC-guaranteed debt that will invest primarily in Southern Africa focusing on South Africa, Zimbabwe, Namibia, Mauritius and Botswana. This fund has raised all its committed capital, and is investing. It has made two investments so far, totaling \$19.5 million, both in South Africa companies. The fund has assembled a strong staff in Johannesburg, under the supervision of an Affiliate of the Sloan Financial Group of Durham, N.C.

New Africa's portfolio include a \$5 million investment in a Johannesburg-based company which assembles light commercial buses to provide more efficient and less costly transportation for thousands of people in South Africa, where more than 90 percent of the black population now uses taxis to commute to work.

Question. Could you also update us on the status of raising private capital for the proposed \$150 million Modern Africa Growth and Investment Fund.

Answer. The Modern Africa Growth and Investment Fund was created in 1997 and is eligible to invest in 29 sub-Saharan African countries, ranging from Senegal to Mozambique. This fund will mobilize \$150 million in private sector resources and OPIC support to invest in

infrastructure and market development in Africa.

The Fund will be managed by Modern Africa Fund Managers, L.L.C. of Washington, D.C. and Johannesburg, South Africa, a management group that has extensive experience in Africa's banking and investment markets. The Fund is expected to focus on deals in the natural resources, telecommunications and manufacturing sectors.

The fund now has received commitment indications sufficient to anticipate that firm commitments will be signed within a few weeks, covering most of the \$150 million. Once capitalized, the Fund plans to invest in companies that have proven track records and are in need of equity capital to expand, to regionalize their operations or to participate in privatization programs.

Question. How is OPIC ensuring compliance with statutory policy criteria on environmental and worker rights with the individual investments of these funds in Africa and around the world.

Answer. Each proposed investment of any OPIC-supported fund must be approved by OPIC for compliance with environmental and worker rights requirements before the investment can be made. The standards and personnel used in reviewing these investments are the same as those used for OPIC insurance and project finance projects. OPIC follows up with selected field investigations to confirm compliance with the terms of its consent.

compliance with statutory policy criteria

Question. How is OPIC ensuring compliance with statutory policy criteria on environmental and worker rights with the individual investments of these funds in Africa and around the world?

Answer. OPIC monitors compliance with statutory policy criteria for individual fund investments through reporting requirements, site visits and third party audits for environmentally sensitive projects.

colombia

Question. Last year during discussions of the decertification of Colombia for lack of cooperation in the war on drugs the State Department proposed that OPIC programs be initiated in that country. Can you comment on that proposal? Is it still being considered? How would OPIC monitor companies activities in Colombia to ensure that drug money was not involved in companies with OPIC insurance?

Answer. On March 1, 1998, the President determined that resumption of assistance to Colombia is in the U.S. vital national interest, notwithstanding any shortcomings in Colombia's cooperation in the war on drugs. Therefore, the Congressional notification period having expired, OPIC is now again open to consideration of eligible projects in Colombia.

The procedure that OPIC follows before deciding to support any project includes a review of the sponsors' business reputation, as well as their financial and technical capacity to complete the project. Also, OPIC obtains comments from the U.S. Embassy on each project before providing support. These measures provide reasonable assurance that OPIC will not find itself supporting a project in which drug money is known to be involved.

harmonization of environmental standards

Question. Your statement suggests that other OECD countries apply only limited standards and conditions to their bilateral investment insurance and finance organizations, and that OPIC is working to ``harmonize environmental standards'' because our companies deserve ``a level playing field.'' Can you expand on these efforts? Does this mean US standards are being weakened to be more consistent with other countries? Which countries in particular have weaker standards?

Answer. There is no intention of weakening OPIC standards as part of a process of harmonizing environmental standards among OECD bilateral investment insurance and finance organizations. Since very few of OPIC's counterpart bilateral agencies have any environmental standards and none that we are aware of perform systematic monitoring of the impacts of the projects they support, almost any effort to adopt and implement standards on the part of such counterparts would constitute progress towards harmonization. OPIC has begun to exchange information on environmental policy matters with its counterparts and is aware that the OECD has also focused attention recently on the environmental practices of its member countries.

opic turn down of environmentally unacceptable projects

Question. Your statement indicates that OPIC has turned down projects because they were determined to be environmentally unacceptable. Can you give us examples of such projects and some idea of how many were actually turned down?

Answer. In the majority of cases, applications for projects determined by OPIC to be ineligible for OPIC assistance on environmental grounds are withdrawn by the sponsor prior to formal rejection by OPIC. Examples of projects recently rejected or otherwise discouraged by OPIC include: A mining project adjacent to a World Heritage Site; a mining project using submarine tailings disposal; factory fishing for over-harvested species; geothermal energy extraction adjacent to an internationally designated nature reserve; and oilfield development and pipeline construction in primary tropical rainforest.

Since OPIC's environmental mandate was adopted by Congress in 1985, OPIC estimates that one or two projects a year have been formally rejected with many, many others being discouraged from applying for OPIC support or withdrawn by the sponsor after informal discussion of OPIC's environmental standards.

Questions for the Record by Mr. Torres

mexico

Question. What efforts are being made to work with the Mexican government to secure the necessary agreements for U.S. investors in that country to obtain OPIC political risk insurance?

Answer. Mexico remains one of the most significant destinations for U.S. foreign direct investment where U.S. investors are unable to take advantage of OPIC political risk insurance and project financing. Apparently, even after conclusion of NAFTA, the subrogation provisions of the standard OPIC agreement are difficult for the Mexican side to accept from a constitutional and political perspective. Making OPIC programs available for suitable projects in Mexico remains an objective of OPIC Management, and OPIC has continued to hold discussions with counterpart agencies of the Mexican government to see if a mutually acceptable arrangement can be found under which OPIC could operate in Mexico.

small business

Question. What new products and services is OPIC developing to meet the special requirements of small businesses?

Answer. Led by a small working group drawn from each OPIC department, the Corporation has explored ways to build on our success with small business. We have investigated ways to streamline the application process, customize pricing and processes, and aggressively work to market opportunities for small business. We are very encouraged

that these steps will yield continued increases in the area of small business. The Small Business Task Force will soon be making final recommendations to the Executive Staff based on their findings. I look forward to reporting to you when these findings are completed.

Question. Can you give me a status report on the ``Small Business Fund'' managed by Allied Capital Corporation; its capitalization and what countries and projects it is investing in?

Answer. OPIC has committed to loan up to \$20 million to Allied Capital Corporation for investment in companies in emerging markets which are linked in some way to small businesses in the U.S. The Fund so far has made two investments, totaling approximately \$10 million. One is a paging company in Brazil that purchases its equipment from a Chicago company; the other is a food products company in Hungary that is affiliated with a small U.S. company.

Questions For the Record by Ms. Kaptur

financing

Question. Can you explain to the committee how OPIC's project financing program differs from programs offered by the Export-Import bank? Are these programs in any way duplicative or overlapping, and if so, why should we support such similar programs through two institutions?

Answer. It is useful to first review the different mandates of each organization.

OPIC is a U.S. Government corporation created under the Foreign Assistance Act of 1961, as amended, to facilitate U.S. private investment in developing countries and emerging market economies by offering political risk insurance, investment guaranties, and direct loans. Most frequently, OPIC has made its guaranties and loans available through project financings.

OPIC is financially self-sustaining, and has reported a positive net income for every year of its operation.

Ex-Im Bank is by definition an export-import credit agency (ECA), and its historic mission has been to facilitate export trade finance by providing export credits. In this regard, Ex-Im Bank is subject to the OECD guidelines with respect to its activities.

OPIC is not an ECA, and is not subject to OECD (Organization for Economic Cooperation and Development) guidelines with respect to its activities. While factors such as the level of U.S. procurement, and net financial flows are carefully considered, and OPIC will not support any project which causes loss of U.S. jobs, OPIC financings are not limited solely to U.S. content. OPIC's statutory mandate includes the requirement that projects are supported which are responsive to the development needs of the host country.

Project Financing describes the structure of a financing in which repayment of the loaned amount is limited to the cash flows and collateral of the project itself, with limited recourse to the sponsor. These financings tend to be relatively large, complicated, and unique. OPIC underwrites and accepts certain construction risks in projects which it supports, while Ex-Im generally does not. This difference may also lead to different informational and underwriting requirements for OPIC on such projects.

OPIC has been providing project financing for U.S. investors since 1971, and has a staff of 50 experienced project finance specialists, who work with an additional 23 in-house attorneys in connection with structuring, documenting, and monitoring these transactions.

At OPIC, all elements of the application for financing are handled internally: this includes all discussions with the sponsor and with other parties related to the transaction, financial review of the application, financial modeling and analysis, structuring, negotiating, and documentation. Control of all aspects of the application is maintained within the agency. At Ex-Im, third party vendors are used for much of the financial analysis, structuring, and negotiation. OPIC has a legislative mandate to be self-sustaining. In practice, it is OPIC's policy to seek to do commercially reasonable transactions. OPIC does not provide concessional terms either on rate or credit.

The agencies will differ in certain markets because of their different missions. OPIC and Ex-Im will not always be consistent in which markets they are open in: OPIC is currently closed in China by act of Congress, but open in Angola, where Ex-Im is closed. OPIC is not an export credit agency, and is not subject to OECD guidelines. OPIC's loans are not tied to U.S. exports, nor are they tied to Ex-Im Bank loans. At the same time, OPIC requires that a project be significantly owned by U.S. investors in order to qualify for OPIC support. While OPIC and Ex-Im utilize a similar lending technique, namely project finance, it does not follow that any project financing is an export credit as such credits are defined by the OECD guidelines.

U.S. exporters and U.S. capital investors benefit greatly from the existence of both OPIC and Ex-Im.

investment funds

Question. Your budget request describes OPIC's Investment Fund program as a public-private initiative utilizing OPIC loan guaranties to mobilize U.S. private equity investment. Each of these funds target a specific country, region, or industry. Can you explain further to the committee how these ``funds'' operate?

Answer. The Investment Fund program is a public-private initiative utilizing OPIC loan guaranties to mobilize U.S. private equity investment in high priority developing markets. The OPIC-supported investment funds make equity investments in companies located in emerging markets, for the purpose of privatizing state-owned businesses, encouraging economic development, and supporting linkages with U.S. companies. Each investment fund targets a country, region, or industry and is managed by a private fund manager, and is capitalized with equity capital raised from private investors. OPIC makes loans or guaranties loans to these funds on a senior, secured basis, i.e. the interest and principal on the debt must be repaid before any money is returned to the equity investors, and all assets of the fund are pledged to OPIC as collateral for the loan. The availability of this OPIC debt enhances the potential investment return to the equity investors, which induces them to invest in the regions or sectors approved by OPIC for the fund's operations.

As a whole, these funds have mobilized in excess of \$1 billion in private equity capital worldwide. Moreover, the funds serve as the pioneering vehicle for responsible investment that is expected to have a substantial multiplier effect in these developing markets. OPIC has guaranteed loans of approximately \$2 billion to these funds, on a senior, secured basis. In addition to monitoring each fund's financial performance, OPIC reviews every investment made by each fund to ensure compliance with OPIC's statutory and policy criteria, including the environmental impact, worker rights and U.S. economic effects of each investment.

One recent area of focus of OPIC funds is in Africa, an Administration and Congressional priority. In 1996 OPIC supported

creation of the New Africa Opportunity Fund, a \$120 million fund capitalized with private equity and OPIC-guaranteed debt that will invest primarily in Southern Africa focusing on South Africa, Zimbabwe, Namibia, Mauritius and Botswana. New Africa's portfolio includes a \$5 million investment in a Johannesburg-based company which assembles light commercial buses to provide more efficient and less costly transportation for thousands of people in South Africa, where more than 90 percent of the black population now uses taxis to commute to work.

The OPIC supported Africa Growth Fund has invested in a soft drink bottling project in Ghana. This project also involved the building of new water pipelines that now bring clean water not only to the bottling facility located in a rural community 30-40 miles outside the capital of Accra, but also to the growing number of new manufacturers and local residents. The Africa Growth Fund also has made a \$1.5 million investment in GAPCO Uganda that provides gasoline sales and distribution services. This Fund also made a \$542,869 investment in Wilken Afsat, a satellite network.

Another OPIC supported fund, the Global Environmental Emerging Markets Fund, is supporting a series of water treatment projects associated with bottling plants throughout Africa, including one operation in South Africa. This investment will total up to \$10 million in investments, which is expected to result in significant exports from the U.S. The fund has also invested in a project which joined forces with local Ugandan entrepreneurs who acquired privatized bottling plants to finance capital improvements and the purchase of water and wastewater treatment equipment.

To further promote small business, OPIC has committed to loan up to \$20 million to Allied Capital Corporation for investment in companies in emerging markets which are linked in some way to small businesses in the U.S. The Fund so far has made two investments, totaling approximately \$10 million. One is a paging company in Brazil that purchases its equipment from a Chicago company; the other is a food products company in Hungary that is affiliated with a small U.S. company.

worker rights

Question. OPIC takes some pride in its projects' compliance with environmental and worker rights. I understand that recently OPIC has changed its approach to apply these criteria not only to country eligibility but to specific OPIC projects as well. Can you tell us how this new approach is working, and can you describe to us any specific enforcement actions taken by OPIC in regard to worker rights compliance by particular projects?

Answer. With respect to worker rights compliance of specific projects, OPIC supplements contract language mandated in its statute with contract language designed to address weaknesses in host country labor laws that are within the capability of the project sponsor to address. These typically include issues involving child labor, hours of work and occupational health and safety. Although this supplementary language is not mandated by OPIC's statute, OPIC has received excellent cooperation from project sponsors in incorporating such language into OPIC insurance contracts, loan agreements and approvals for Investment Fund projects. Based on our monitoring of such projects thus far OPIC has not had to resort to enforcement actions with respect to worker rights. OPIC has cancelled one insurance contract on environmental grounds.

Wednesday, March 18, 1998.

AGENCY FOR INTERNATIONAL DEVELOPMENT

WITNESS

BRIAN ATWOOD, ADMINISTRATOR

Chairman Callahan's Opening Statement

Mr. Callahan. Well, Brian, this is the fourth time you have been before our committee, and I have learned in the last four years that reading opening statements does not make a whole lot of sense to me. And, thus, I am going to forego the reading of my statement and suggest that you abbreviate yours.

But this is the fourth trip. We have been very generous I think to your efforts for USAID, and we intend to be as generous as we can this year, but we are going to have extreme limitations.

You have requested a pretty healthy increase--I think \$900 million. As best we can ascertain through the rumor mill, the 602 allocations are going to be probably reduced from last year. We do not know that for sure, but that is the rumor I am getting. I think we are going to consider the IMF monies and all of that and have to rescind 1998 appropriations. But for 1999, in order to comply with the budget resolution, we are going to have to experience some cuts, whether we like it or not.

The President's budget, in defense of the administration, was balanced. However, he used a lot of tobacco smoke and mirrors to reach that balanced stage. This Congress, I do not think, is going to impose any new taxes. That trend is prevalent throughout the entire budget submission.

I know in my Subcommittee on Transportation the only way we can get money for drug interdiction, according to the President's request, is to impose new fees, and we are not going to do that either.

The bottom line is we are going to receive lower 602 allocation and, thus, we are not going to be able to come up with the \$900 million. We are going to have to do everything we can to maintain the status quo.

We continue to be concerned about the computer problems, the new management system. There is no need for me to go in-depth, again, with you. I went in-depth with you in a private meeting, and this committee does not want to be embarrassed by the management system failures, especially with the expenditure that has been made. So we are very concerned about that.

We are pleased that you included the child survival account this year. That was very smart of you, Mr. Atwood, to recognize the importance of that, and I, personally, appreciate it. I am going to fulfill your request. In fact, in that particular area, we are going to give you more than you asked, in order that we can comply with your request, and that is to give the

same treatment to Ms. Pelosi's concerns that I have about USAID's involvement in the HIV program.

So we are going to treat you well in some respects and not give you everything you asked for in other respects.

With that, I am going to submit a statement for the record, and then I invite you to address the committee.

[The statement of Chairman Callahan follows:]

[Pages 109 - 110--The official Committee record contains additional material here.]

Mr. Atwood's Opening Statement

Mr. Atwood. Thank you very, very much, Mr. Chairman. I will summarize my statement and also offer some personal observations to you.

The first one I want to offer is that I want to thank you for your leadership on this committee. We have talked many times privately, including just recently, and I know that a few years ago you did not seek to be in this position, but it seems to me that that makes your achievements as chairman even more impressive, at least that is my observation.

When the Foreign Operations Bill passed last year with 376 votes, the highest number ever, I believe your colleagues gave you their highest compliment, Mr. Chairman. They gave you their trust.

I want to thank you and your staff for the very professional manner in which you conduct your oversight of our programs. You challenge us to be better. You make us aware of the political issues that you face in the House of Representatives. You let us know when we are at risk and always your oversight respects the separation of powers. You have said many times to me, Mr. Chairman, that you do not want to run USAID and, frankly, having done it for a while, I do not blame you. [Laughter.]

But I thank you for your support and for your leadership, and I will do that, personally, when Ms. Pelosi comes in later because I appreciated very much our long friendship there as well.

But today, Mr. Chairman, I want to acknowledge the very special contribution that two members of the Minority of this committee have made over the years.

This may be the last time that I appear before Mr. Yates and Mr. Torres, as they both announced their intention to retire from Congress.

As my good friend, Esteban, is here, I would ask him to reconsider, but I am sure many have done that already. Congressman Torres and I served together in the Carter administration, when he was ambassador to UNESCO, and he was a fellow member of the board of the National Democratic Institute with me. So I know this man well, and I know that we are going to miss his strong advocacy of our programs here, and his strong advocacy of engagement for the United States in the international arena, his deep knowledge of international affairs, and some would have me say Latin America more than

other regions. Obviously, he does know Latin America well, but he knows every region of the world.

In the case of Congressman Yates, I think it is just as important, even though he is not here now, and I will say this later to him, to recognize that he has been a member of this committee for almost 50 years. It is interesting, in contrasting what we said the other day about your having no intention of serving on this committee, that he has been here for 50 years from the time that it was known as the Marshall Plan Subcommittee. I was not even aware of that until someone did a little bit of history, but that is a very glorious past. We all think the Marshall Plan was a big success.

I had the privilege of working closely with Mr. Yates, especially during the Carter administration, and he has always, of course, been a strong advocate of American leadership abroad. I know that he will be missed here. He embodies a great deal of history.

I see that Ms. Pelosi has come into the room, and I want to thank her, as well, for her leadership on the Democratic side. We have known each other long before she even became a member of Congress, but she is someone whom I admire for her political skills and for her knowledge of our programs, and I really appreciate very much her support.

I want to wish Esteban Torres well and Sid Yates, as well.

Mr. Chairman, the budget the President has submitted for Fiscal Year 1999 has this subcommittee's imprint. For the past two fiscal years, you have insisted on a special child survival and diseases account.

The Executive Branch in the past had preferred to include child survival funding in its regular development assistance accounts, and so I say, Mr. Chairman, as you have already indicated, you have won. I would only say that anyone who can attract 376 votes on final passage deserves to get his way.

The President's budget contains more for children than is in the child survival account. The development assistance account, for example, contains resources that address other underlying social and economic conditions that impact directly on children's lives.

So we were looking at numbers here. I just want to make that point clear; that there are other aspects of this bill that also deal with children and their lives beyond what is in the child survival account.

Mr. Chairman, this weekend I had an opportunity to read the draft peer review that has been done on the American foreign aid program conducted this year by the Development Assistance Committee of the OECD.

The review this year was conducted by Denmark and Germany, two very strong members of the donor community. The thrust of the report is that the effort we have undertaken to become more results oriented, more defined by strategic goals, is influencing the entire donor community to adopt the same approach.

I want to quote a few sentences from this draft report.

Within the framework of a governmentwide campaign to improve public management, USAID has sought to be a leader in these areas, while simultaneously working toward best practices

to improve the quality and impact of the programs themselves. A highly ambitious campaign for change has attempted to link reforms in USAID management with setting clearer goals for USAID, establishing stronger partnerships, building more developing country capacity, promoting attention to gender issues, and seeking better ways to help developing countries to enter the world economy through a range of policies alongside development assistance.

Perhaps that is best demonstrated by the bill that was passed here in the House of Representatives last week on trade and investment in Africa. Clearly, that bill endorsed the concept that there should be a continuum; that, indeed, aid, if it is spent well, can produce trade and investment and that there is, in fact, a great deal to be done to produce that kind of result in Africa.

In that sense, there is a very dramatic change in our approach. We see the end game of what we do as trade and investment that can sustain economic growth in these countries, and we see the end gain as producing both democracies and market economies.

So there may have been debates over these issues over the years--there were--and they were mostly ideological, and they were mostly a reflection of the ideological debates that occur here in our country between liberals and conservatives.

But what we advocate now is something I think is very much in the center of American political and economic thought. We believe governments should interfere in economies as little as possible. We believe that tax rates are, generally, to be lowered, but revenues are needed in order to provide social services to people, so that people can receive education and health care that would enable them to be productive members of the society.

Perhaps I am on very dangerous ground in talking about these issues in a more domestic context, but, basically, our development plans nowadays reflect the notion that strong democracies, accountable government, systems that allow people to participate, and systems that allow transparency in the way economic transactions are undertaken are what we are striving for in our USAID program.

If we can achieve that, then countries can join the global economy. They do not need us any longer.

One of the things that we have said in our formal testimony here today is that by the end of 1999 we will have departed from 30 countries. I have some reservations about that, but, on the other hand, a lot of it is because we can stand back and say that countries have graduated from our program, that they do not need aid any longer.

We have always said, I think, in the last 40 years of doing this business, that we want to work ourselves out of a job. Perhaps, for the first time in American history, we are basically saying we have done that, in some cases.

In other cases, we are saying we are not going to work with governments that do not hold our views as to what development should be. We are not going to work with governments that say that people should not participate in the development process; governments that abuse human rights; governments that will not,

themselves, care as much about development as we do; because we have wasted a lot of money in the past in doing that.

I am going to be discussing, in early April, this draft assessment that we have received from the DAC with the members of the Development Assistance Committee. But what I am satisfied about most is that we have managed to maintain our leadership in the development community, influence the way they spend their money, even though our budget has been reduced.

And we, of course, continue to receive criticism from these countries because, as a percentage of our GDP, we provide less foreign aid than any other country, but, despite the fact that I have to listen to this at every meeting, I always remind them that, in terms of our overall international commitments, that we provide a great deal on the military side that they do not provide.

But I do not accept criticism easily in these meetings. I come back at them. But the fact of the matter is that, even despite that criticism, we have been a more innovative leader in the development community, and that is not an insignificant achievement.

Today we are a largely reinvented agency. Our procedures have been refined to reflect results. We are more strategic in our thinking. We even developed a strategic plan long before it was required by the Government Performance and Results Act.

We have re-engineered to create new partnerships with those with whom we work to establish strategic objective teams in our missions overseas and to encourage the real participation of those whom we are trying to help.

The one area where we have fallen short, you have already mentioned, Mr. Chairman, is our own ambitious goal to develop a new information technology system that would support the other management changes.

The problems we have had in developing the software for our new management system is certainly my biggest headache and I think yours as well.

I believe we are now on the right track. We have received an independent validation and verification report from IBM Federal Systems and Coopers & Lybrand, a group that was recommended by GSA's Federal Systems Integration and Management Center. This group has examined our software in-depth and has given us excellent recommendations for fixing the system.

With the perfect vision of hindsight, we were clearly too ambitious in what we attempted to do. We knew we had to move quickly because our old systems were producing inconsistent data, and we did not have the tools and skills to manage a very large and complex agency.

Our decision to become operational in October 1996 before the system was fully tested was motivated by a desire to force the reconciliation of the old data that was coming to us from different and very inconsistent sources and an effort to sort of force this through.

Had we gone in another direction in October 1996 and said we are going to do testing, and then we are going to do a contract so that we can fix whatever we find in the testing, it would have been two years before we could have designed the RFP necessary for the contract. We were confronted with that. We said let us take a chance. We took that chance. We, after seven

months, closed down the overseas operations of this system because it was becoming too burdensome for our people.

But we are now back on track and, frankly, we have not lost that much time, if you assume that we had to take two years. We have spent \$76 million on developing a system. We have three of the modules, and we have another system--the financial system--that is working, but it is working poorly. There is a 27 percent error rate in the software, and we know we have to fix it and, indeed, this IBM group has recommended that we get an entirely new financial system from commercial sources.

I would only say in that regard, Mr. Chairman, that I wish that those commercial systems had been available a few years ago when we were making these decisions. These are systems that are now approved by the Government testing system, so that they can be used in Federal Government agencies.

We will probably move in the direction of using commercially available financial management software as we have discussed privately. Our No. 1 priority now is to identify and provide the critical functions our missions and Washington staff need to operate, including the correction of any remaining Year 2000 problems.

The second priority is to have a functioning agencywide integrated accounting system that will enable USAID to produce auditable and timely financial statements. I want to reassure people on this panel that we can produce financial statements, that our AWACS system provides us with data that we then probably have to check. But it is clear that we can manually produce all of the statements. We can track U.S. taxpayers' money. It just takes us a lot longer to do it, but that is no different than it was in 1993, in that sense.

In fact, there are some that say that the system we have now is better than the multitude of systems that we had then.

So we have got problems. We have had them since 1980. We still have the same problems, but we are confident that we are on the right path to solving them.

As you know, every corporation in America and every Government agency has the same problems with the Year 2000 implementation, and we are just going to have to continue to work, according to the plan that has now been given us by the real experts, and to compensate for, frankly, a Government agency that has not, in the past, had the talent in-house to do this. We have had to contract out. We are going to do that, again, with a single prime contractor, but we now know enough about what we need to get the job done.

I hate to spend as much time as I am on this, but what I want to emphasize is that we are not asking for any additional money. We had projected the overall cost of the system to be \$109 million last year through the life cycle. We probably will have to spend over the next 2-3 years \$10 to \$20 million to fix the system.

As we bring this system on-line, we will probably add functions, and that will cost us a little more money, but we are not going to be spending more money on information systems than we had in the past.

In fact, in 1993, we were spending somewhere near \$50 million a year on our information technology systems, and supporting about 60 separate systems that did not talk to one

another. What we are trying to do is to create a system that will give us what we all want which is a capacity to manage the agency and to know on a minute-by-minute basis where our pipelines are and what are in our pipelines.

We are going to continue to consult with you on this. I have to, as I did privately with you, commend your staff. They have been the most interested--I am sure I will get into trouble for saying this--as to the details of this, more than any other staff of the four committees that undertake oversight over us. They have gotten into great detail on this, and, frankly, by asking questions they make us better in the process.

So we do not want to throw the baby out with the bath water. We have made a great deal of progress. We were too ambitious. If responsibility needs to be taken for that, I will take full responsibility for that. But I am also aware that you can only do that once with respect to a particular problem. If I have to say the same thing a year from now, I am in real trouble. So I assure you, Mr. Chairman, that I will benefit from hindsight.

Let me conclude, Mr. Chairman, by suggesting that the resources that we are requesting are really investments in our children's lives. The benefits we are deriving today, in terms of increased trade and the expansion of democracy, are the result of the investments that our predecessors made 30 years ago.

What is significant is that we are able to expand markets, lower infant mortality, increase literacy, and feed the world, even though that 30-year period was characterized by a lot of experimentation in the development field. It was characterized by inadequate coordination among donors, by excessive paternalism toward recipient countries, by a highly stovepipe approach to development, and a constant Cold War ideological struggle that led many poor countries to adopt statist economic policies, nonmarket economic policies.

Today, Mr. Chairman, I think all of the members of this committee can assure your colleagues that we have a strong consensus on our common goals among the donors. There is more effective coordination than ever before. There is more burden sharing than ever before. We only provide about 15 percent of all of the foreign aid in the world now. We are working with more governments that believe in democracy and market economics. There is more private capital flowing to augment the development process at the end of the continuum.

There are more developing country governments that reject aid dependency, and you are going to hear a lot about that during the President's trip to Africa--people like President Museveni who say we do not want to be aid-dependent. We want trade and investment. They are not saying that they want to abandon aid now, but they are saying that they do not want to become aid dependent and that their policies will reflect that desire.

Our watch word on this trip will be that aid creates trade and economic activity, and I believe that sincerely.

All of that adds up to a better deal for the investment we make in foreign assistance, and the American taxpayer will benefit through growing exports, more protection from

environmental and disease threats, more stability for global economic growth, and more democracies who resolve problems peacefully.

In my opinion, Mr. Chairman, that is not a bad deal. That is not a bad record to take to the floor of the House of Representatives. Even though this is an election year, I feel confident that you can receive those same 376 votes this year.

Thank you, Mr. Chairman.

[The statement of Mr. Atwood follows:]

[Pages 117 - 136--The official Committee record contains additional material here.]

Mr. Callahan. I probably will, but my problem is not on the floor. My problem is in the leadership meeting when they divide up the monies.

Mr. Atwood. I understand.

Mr. Callahan. I now recognize the gentlelady from California until 10:05 a.m. [Laughter.]

Ms. Pelosi's Opening Statement

Ms. Pelosi. I will most certainly heed the gracious admonition of my chairman and join him in welcoming Mr. Atwood here. Please forgive me, I did not know what room we were in, Mr. Chairman.

I will get right to the questions because I know the Chairman asked us to get a first round out of everyone very quickly.

Mr. Atwood, suffice it to say that I admire the work that you are doing. The difference between USAID today and when you took over I think has quite dramatically improved. I commend you to the leadership in meeting that significant challenge.

You spent a good deal of time in your statement on Africa and the President's trip, which certainly focuses the attention of the country on that continent. I understand that AID has recently undergone a reassessment of its strategies in Africa. These discussions have identified a series of needs that involve the strengthening of Africa's economic and cultural links to the world. Can you discuss this new assessment?

Also, I will telescope this question. OPIC and Ex-Im have new credit initiatives to expand African programs. How is USAID's new development strategy integrated with those agencies? Why don't we start with that? Thank you.

africa

Mr. Atwood. Thank you, Ms. Pelosi.

Again, I think that the philosophy reflected in the bill that was passed recently, the Ways and Means bill on trade and investment in Africa, encapsulates the lessons that we have learned.

I mentioned before that we believe that there is a continuum here. We want these governments to continue with

economic reform. Many of them have to shed many publicly run enterprises. So we have to be helpful to them in privatizing their economies, cutting back on the huge patronage that influences them, the huge government budgets that they have, and they need help in doing that, obviously.

sustainable economic development

Ms. Pelosi. Excuse me, Mr. Administrator. AID's strategy identifies sustainable economic development growth with its keys to success as part of that strategy. I think you are beginning to touch on that.

So if you could focus on that. Meanwhile, can you explain the concept of nonproject assistance and identify countries where this has worked successfully to achieve economic----

Mr. Atwood. All right. I will do that. Nonproject assistance is when we provide aid in a particular sector to a country to encourage the country to reform its system. If it is the agriculture system or education, for example, we have had a lot of success in doing this.

We will negotiate reforms in a sector, we will coordinate with other donors as to what they are providing in that sector; and we will provide the government with much needed revenue in order, for example, to pay school teachers or whatever for that particular sector.

Under the Development Fund for Africa, the authorization for our work in Africa, which was passed some ten years ago, it was anticipated that about 20 percent of the resources we would use would be for this kind of nonproject sector assistance. Some call this cash transfers.

It is controversial because of that, and we really push our people to justify these transfers, making sure that the transfers are taking place in a sector where we have a lot of project activity at the same time.

So this has been very successful because, again, many of these governments do not have the revenue. They need the revenue. They are the poorest countries on the Earth. They need that revenue, and we work with them very closely as we develop that particular sector and we are able, in doing this, to attract other donors to come into that sector to work together with the government itself.

It is always controversial because we do not really like transferring money unless there is a real people-level impact. We have actually reduced, from the 20 percent that Congress envisioned we would be using, down to less than 10 percent now of our overall resources for Africa are used for this purpose.

But that works very well with the new philosophy that we should be working to give these African governments that do not want to be aid-dependent a little more say as to how they would spend the money themselves, as long as it is spent in that sector and to improve that particular sector.

Ms. Pelosi. Thank you, Mr. Administrator. I believe my time has expired.

Mr. Callahan. I might just follow-up with one comment on that, Brian, on the cash transfers to governments, and that is the use of Child Survival monies for that program does not sit well with this Chairman.

Mr. Frelinghuysen?

Mr. Frelinghuysen. Good morning. Thank you, Mr. Chairman.

Mr. Administrator, I want to thank you for coming into my district last year, highlighting the need for more work and support for AID's private/public partnerships, particularly visiting a company that creates vaccine vial monitors with heat-sensitive tags that save us a lot of money because then those vaccines, we can determine whether, in fact, they are usable.

You, in your testimony last year, I asked you to sort of use your bully pulpit. Indeed, you came to my state to do exactly that. But it does seem that despite your good intentions and that of Secretary Albright, there continues to be a real disconnect between many Americans and the need for foreign assistance, foreign aid. I think a lot of what we are suffering with in terms of the IMF debate and obviously some controversial rider issues there, there seems to be that continual disconnect.

I know you are heading off to Africa with the President and I commend you for that. You have good reason to be enthusiastic. But on the domestic front, what are you doing to focus public attention around the country on the need for congressional support for being in the marketplace--fast track, IMF, these basic support programs?

Mr. Atwood. Thank you, Mr. Frelinghuysen and thank you for inviting me to your district. I think that showed a great deal of courage on your part, to invite the head of the foreign aid program to your district.

Mr. Frelinghuysen. No one held it against me. I think they appreciated what you are doing.

public support for foreign aid

Mr. Atwood. I try to travel about once a month domestically to talk about our program and most recently I was in Houston and Austin, Texas and had the opportunity in Houston to meet, as I do everywhere I go, with the editorial staff of the newspaper there and also in Austin.

I also met with President George Bush, who has always been a strong supporter of foreign aid, and I obviously asked him to be publicly supportive, as he has in the past, and wanted just simply to brief him on a recent trip that I had taken to Bosnia.

There are two programs that we have financed with private money, for the most part. We have about one staff person that works on these programs. One is called Lessons Without Borders, which we have taken to a number of cities and rural areas, most recently to Knoxville, Tennessee, where a good friend of the Chairman, Congressman Duncan, hosted us, where we took people that we worked with overseas to talk to local people who are doing development work and shared information about what works.

One is the microenterprise program which I am sure will come up later in this hearing, an idea that came from Bangladesh. We have done so well to improve the immunization of children overseas we have come back to help improve the immunization rates in cities in the United States through this Lessons Without Borders program. We have done a whole variety of things through this

program.

One of the reasons I visited with President Bush was to talk to him about using his Points of Light Foundation to help us with a program we have also launched, called Operation Day's Work, wherein high school students will select a developing country, study it for a week and then will go out and work for a day in their local community and raise money to invest in a particular project--usually it is an education project--in a country overseas.

This is an idea that worked very well in Norway and in Denmark and some of the other Scandinavian countries where they now have 80 percent plus support for foreign aid as a result of about 30 years of investment in this program. Every year at the same time high school students in Norway are going through this program and trying to raise money for poor people in another part of the world.

So that is, I think, something that we hope will catch on. We have announced it here. Actually, the Norwegian government gave us \$20,000 so that we could work on this project and we will be seeking private funding support.

So we are excited about that. We are going to do it next spring in at least five different cities around the country. President Bush was very interested in it, as was Colin Powell and a number of others who run organizations that encourage volunteerism.

So those are some of the things that we are trying to do.

Mr. Frelinghuysen. Thank you.

Mr. Callahan. The gentlelady from New York is recognized for five minutes.

Mrs. Lowey. Thank you, Mr. Chairman.

And I want to thank you, Administrator Atwood, for your important leadership with USAID. I just want to express to my empathy, and I share your frustration and I feel very sad that you have to spend so much time on a computer program.

Ms. Pelosi and I, Mr. Chairman, are on the Labor-HHS Committee and in every department they have the same thing.

I was involved in some oversight of the air traffic controller issue in New York where I won't even mention the name of the contractor. They had spent \$3.6 billion and the price has doubled to \$7.4 billion--is that double?--something like that, \$7.4 billion, and then they had to let a new contract.

So I really believe that the computer problems in this government are just overwhelming. And somehow people other than yourself that should be focussing on our programs that are so critical can straighten this out. There are programs in every department that just don't talk to each other.

So I commend you on your focus on this and I share your frustration and I hope, with your leadership, it can get resolved with a consultant out there who knows what they are doing. This is the problem we have been seeing everywhere in government and you should be able to focus on the substance and not on the computers.

But I thank you because I just think the work you are doing is so very vital. What it is doing is really giving people in their own country a sense of responsibility and helping them be part of a democracy that we hope will share our values. So I

want to thank you for that.

microcredit programs

Quickly, because the Chairman is being tough on time this morning, I want to commend you at the beginning for being a very strong supporter of microcredit. As you know, many of us feel this is a very important program. Low interest loans to millions of low income entrepreneurs around the world would be a major step toward the eradication of poverty. And when you think that these loans are under \$300, they are paid back and, in many cases, women have an opportunity to stand tall and feed their families and play an important role of leadership in their community.

Of course, I believe we can do more. The FY98 foreign operations bill allocated \$135 million for microcredit programs, including language indicating that half of that total should go to poverty lending programs providing loans of \$300 or less. Could you tell me if you plan to spend that?

And I am also very interested in the coordination with the World Bank. Again when many of us met with Jim Wolfenson he had expressed his frustration that he couldn't get enough money out there, that there was more money to get out there. And I would be interested to know to what extent you are working with the World Bank, the NGO community and others to make new inroads in micro lending around the world.

So first, are you going to spend what has been appropriated? What more are you doing? And what kind of coordination is in place?

Mr. Atwood. Thank you. Well, it is an extremely important program. As I mentioned before, this is an idea that we got from Bangladesh and the Grameen Bank. We are actually applying it here in our own country now and to good effect in dealing with areas where unemployment we thought was chronic, but this is a way of providing opportunity to people who haven't had it.

I want to make it very clear that while we have proposed the \$135 million level, that this is not a ceiling and we would hope to exceed this amount. Last year we found that after a final look at what we did in fiscal '97 that we spent almost \$161 million on microenterprise, microcredit programs of various types. That number includes resources that we spend under our Title II P.L. 480 program for development aid that we can't anticipate in the budget itself at the beginning of the year.

So we think that perhaps we will be spending some \$30 million on microcredit programs in that, as well, but that is the kind of program that responds to proposals that are made through the year.

We have increased the number of countries in which we are applying microcredit programs by 30 percent, so we really feel as though we have mainstreamed this. Our missions now are looking for opportunities.

But I have to express the same concern that Jim Wolfenson had about absorptive capacity here. We don't clearly want to push money out the door to organizations that cannot handle it well because there are a lot of very traditional bankers that would like to discredit these programs if they are not run

properly.

We all brag about the fact that there is a 98 percent return on the loans. We want to maintain that level of return. And when we put money into these programs we are creating capital through the interest that is earned. Take, for example, Banco Sol in Bolivia. We started that program 10 years ago with a \$4 million contribution. Today they have \$60 million in capital available for poverty lending.

Now, that is the same story in a number of other countries. I haven't studied this--I can get more information if you wish. In Bolivia itself my imagination tells me that there would not be a lot of other opportunities to put more money into small businesses in Bolivia.

So as we succeed, it is much more difficult to find opportunities in some of these countries. That is not to say that we have in any way reached the maximum. We have a long way to go, especially if we are going to meet the commitments that were made at the Microcredit Summit that was held last year.

Mr. Callahan. The gentleman from Virginia is recognized for five minutes.

Mr. Wolf. Thank you, Mr. Chairman.

Mr. Atwood, I welcome you to the committee and I appreciate the good job that you do. I would say more but since we are on a five-minute clock, I don't want to congratulate you too much.

Mr. Atwood. I will try to keep my answers brief, Mr. Wolf.

operation lifeline

Mr. Wolf. Yes, if you would keep them brief.

Sudan, the development assistance, how successful has that been, Operation Lifeline? Is it being manipulated by the Sudanese government and have you made any special efforts particularly with the increased refugees and the bombing that took place last week, two weeks ago in Yei? Could you bring us up to speed on that?

Mr. Atwood. Yes, Mr. Wolf. The development aspect of this, we are being very cautious about. The idea here is to use approximately \$3 million.

Mr. Wolf. \$3 million?

Mr. Atwood. \$1 to \$3 million to improve the capacity of those groups who are in opposition-held areas to govern their own areas. This situation has gone on for so long that we have to understand that the humanitarian problems are going to be even greater if the leaders of these groups are ignorant of the needs of their own people.

So capacity-building is what we are attempting to do. We may well see a resolution of this, a victory by one side or the other, hopefully in the near future, but in that case this capacity-building training will be useful if these people actually take over the government one day--we will have to see--or if they receive autonomy, which is another possibility, in a peace agreement.

So we think it is important to do this. We haven't yet started. We have been studying how to do it but we want to be cautious about how we proceed.

The Operation Lifeline continues to be successful. I can't give you the information about what happened last week yet to

know whether or not this has had an impact on our ability to deliver humanitarian assistance, but I will provide that for you for the record. That is just something that has come up more recently. But it is a good program and it has saved a lot of lives over the years.

[The information follows:]

Government of Sudan Bombing

On March 5, a Government of Sudan (GOS) plane dropped 13 bombs on a hospital in Yei, of which five hit the hospital directly, destroying the operating theater and an evacuation bunker in the hospital grounds. Fifteen people working in the hospital were killed and another 40 were seriously injured. The 100-bed hospital, run by Norwegian People's Aid (NPA), treats civilians, Sudan People's Liberation Army (SPLA) soldiers, and GOS prisoners of war. NPA was renovating the hospital with a grant of over \$100,000 from USAID's Office of Foreign Disaster Assistance prior to the attack. Services at the hospital were brought to a standstill by the air raid. GOS planes have carried out around 12 bombing raids on Yei based in Juba since the SPLA captured the town in March of 1997. Five people, including a nurse, were killed during the bombing.

Sudan

Mr. Wolf. On the issue of Sudan, I appreciate the sanctions the Administration put on Sudan. I now understand there are major efforts by business interests to weaken those sanctions. Of course, these business interests have political action committees which have an inordinate impact up here on Capitol Hill and the poor people of Sudan, many of whom are being enslaved, many of whom are Christians who are being persecuted for their faith, really don't have any representation.

Are you being asked by the Administration or do you agree that we should not have any waiver of the sanctions that have been put on Sudan, particularly with regard to gum and those other extracts?

Mr. Atwood. This is a matter that may be being considered and obviously a decision that would be taken above my pay grade, but I personally feel very strongly that these sanctions are appropriate and that the Sudanese government sponsors terrorism and therefore should suffer the consequences.

Mr. Wolf. I appreciate that and I hope you will let Secretary Albright know.

East Timor

East Timor, are you helping a little bit more there with regard to some AID money? Could you give us a sentence or two and then, for the record, supply what you are doing out there?

Mr. Atwood. Yes, I will do that. I visited East Timor about a year ago and we have some very successful programs, one that I am very proud of that I talk about a lot.

The military in East Timor, which was seen as the occupying force----

Mr. Wolf. Still are, I think, seen by the East Timorese.

Mr. Atwood. They had managed to get themselves into the coffee business, Mr. Wolf, and I found that to be fascinating. They were making a lot of money off of the coffee business and

we managed to get the government in Jakarta to agree that we would be able to open a coffee coop there.

Mr. Wolf. I visited the coffee co-op. Do you have other things going on? There is the Salesian mission there, the school.

Mr. Atwood. There is the Salesian mission. We are attempting to help educate children. There is one very important program there to help make people aware of their rights and to give them legal assistance in dealing with the government.

Mr. Wolf. Could you just summarize that and give us maybe a letter for the record, for the Chairman, and then something that I could see?

[The information follows:]

[Pages 144 - 146--The official Committee record contains additional material here.]

Mr. Atwood. I would be happy to.

tibetan refugees

Mr. Wolf. One last question. Is there any need to put a little more money in to help the Tibetan refugees who are leaving at an increasing number from Tibet coming into Nepal and coming into India? How much do you give for that now? And do you think that should be increased a little bit?

Mr. Callahan. Thirty seconds.

Mr. Atwood. That is handled by the Refugee Office at the State Department but I will get you an answer for the record. That is not in my purview but I will be happy to.

[The information follows:]

Assistance to Tibetan Refugees

The State Department's Bureau for Population, Refugees and Migration reports that, although the numbers have not increased, approximately 3,000-3,500 refugees cross the border from Tibet to Nepal every year. The State Department is considering increasing its funding based on a request from the Tibet Fund. The increase being considered is from \$1.1 million (\$900,000 to the Tibet Fund, \$200,000 to the UNHCR) in FY 97 to \$1.8 million in FY 98. A decision on the increase will be made by the State Department before the end of May, 1998.

Mr. Wolf. Thank you very much.

Mr. Callahan. Mr. Torres.

Mr. Torres. Thank you, Mr. Chairman.

latin america and the caribbean

Thank you, Mr. Administrator, for your very kind comments about me and Mr. Yates. For me, too, it has been very gratifying working with you over the years and certainly I want to commend you if we are passing out kudos here this morning, commend you for the strong leadership that you have shown during your tenure at USAID. You have done really fine work and I am very supportive of your programs, especially investment in

the area of microcredit. As my colleague, Mrs. Lowey, has indicated, many of us have a special interest in that area.

I think there is widespread support in the U.S. Congress for microcredit because of its effectiveness and the cost efficiency in giving the poorest people the means to help themselves out of poverty. Obviously your agency has done tremendous work in that.

Let me shift quickly to Latin America and other areas that I have a great interest in. The President has sent a clear signal about the importance of Latin America through his two trips last year and, of course, his forthcoming one next month. This committee, under Chairman Callahan's leadership on the issue, has also sent a very clear signal about the importance of Latin America, as indicated in our bill last year.

I, for one, welcome the renewed attention to developments in this hemisphere and believe that it must be matched by the commitment of resources sufficient to the critical U.S. interests that are involved.

The decline in development assistance to Latin America and to the Caribbean has been far too dramatic and the Administration should really take steps to reverse this trend. Latin America and the Caribbean was the only region of the world that was not slated for an increase in development assistance in the President's request last year.

Mr. Atwood, I would ask you what are AID's priorities for the region this year and where do we stand with the resource demands for these programs?

Mr. Atwood. Mr. Torres, it is obviously an important region and one that has generally benefitted greatly from investments in the past. There is a great deal more trade, a great deal more investment, but that doesn't mean that the development challenge is over. We still have over 40 percent of the people of Latin America living in poverty, according to the statistics, and this is a serious challenge.

We have asked for a slight increase in assistance to Latin America under the Development Assistance account of, I believe, a \$4 million increase, but we are going to generally be looking at reprogramming money to deal with problems of infectious diseases, in particular cholera, malaria, dengue fever, chagas and measles. We are going to be dedicating more money to the health sectors of these countries.

We hope to provide resources under the development credit authority to improve and strengthen U.S. commercial partnerships, to improve water and environmental quality.

There is a list of things that I will be able to provide you for the record on this question, Mr. Torres, but we believe that a number of the issues that will be coming up at the Summit of the Americas will deal with development issues. The agenda for the leaders of Latin America is a development agenda. It involves education; it deals with poverty eradication. They know that unless they can stabilize these countries, unless they can deal with poverty, they will not be able to stabilize these countries and we will not receive the benefits that we are receiving now.

Current trade--we are exporting about \$125 billion of American products to Latin America. In 1983 that was \$25 billion. So you see that by the year 2005 we will trade more

with Latin America than with all of the rest of the regions of the world combined if everything continues to go positively, but we need to, I think, continue to invest in stability, in peace, in democracy and open market systems in Latin America.

Mr. Torres. Thank you. Thank you, sir.

haiti

Mr. Callahan. I just might remind the administrator that Latin America is not defined only as Haiti, that there are other countries in Latin and South America and the Caribbean other than Haiti and the only request that I can see is a \$70 million increase for Haiti. I hate to put a cap on the amount of money you are going to spend in Haiti but we don't have the resources to provide that type of increase for Haiti, where we are making zero progress and, at the same time, have so many countries, as Esteban has indicated, that have such great needs.

Mr. Knollenberg.

Mr. Atwood. Mr. Chairman, sometime later in the hearing may I have an opportunity to respond to that? I think I really need to make a case for Haiti here. Thank you.

Mr. Knollenberg. Mr. Chairman, thank you very much. And Administrator Atwood, welcome.

Mr. Atwood. Thank you, Mr. Knollenberg.

kyoto accord

Mr. Knollenberg. I have a concern about one item that I see relates to climate control and Kyoto, the emissions standards which, in fact, impact the U.S. most greatly of all of the nations. In fact, we have to, as you well know, get 7 percent below 1990 levels, which means that is a huge step. No other country, including 80 percent of the world, has anything like this. The 80% have nothing to do.

I noticed that AID has stated that it will devote at least \$150 million in noncredit assistance per year. It says ``at least,'' which means it could be more. And they are going to do this for at least five years to climate-related programs. I presume that would be--it emphasizes energy and land use sectors. It could be irrigation. I don't know what it is for and you can respond to that.

But having been an attendee at that conference in Kyoto in December, along with 13 others, I find it, number one, a huge burden on the U.S. to be faced with a 7 percent reduction from 1990; secondly, to have the developing nations be exempt or given a free ride. And now I notice that AID is involved in spending money for what presumably would be climate-friendly development activities, which is an additional burden on the U.S., this time in the form of foreign aid.

You stated at least \$150 million would be devoted to these programs this year. ``At least'' bothers me because is it going to be more? And, if so, how much more? And where is this money coming from? What other accounts, what other reprogramming would have to go on to find this amount of money to presumably reduce emissions around the globe? I don't know what specific countries might be involved in this. You might comment about

that, as well.

But it seems to me that these efforts could be viewed as a way to implement the Kyoto Accord. They are not certainly done with Senate approval and no treaty has been ratified, so I would like to have your comments on those questions.

Mr. Atwood. Thank you, Mr. Knollenberg. I think I can avoid getting into the debate over the Kyoto Accord in answering your question because whether or not you agree that that is a good thing to do on the international scene, one of the criticisms is that the developing countries did not agree in Kyoto to the same kind of regime that we have agreed to.

global climate change

What we are attempting to do with the developing countries is to help them maintain the same level of economic growth, which will obviously lead to a good deal more of American exports in the global economy, but to do it more efficiently and to do it in a way that doesn't pollute the atmosphere any more than they have to.

A lot of what we do in the global climate change area is energy efficiency--power plants that have the most modern devices. We have one program where we have utilities from the United States who partner with utilities in other countries to teach them how to more efficiently produce energy.

We obviously do a lot of work in the area of protecting forests, which absorb a lot of the greenhouse gases, CO2 in particular, which benefits everybody, including Americans. And all of that is work that we have done under our environmental section of our budget for the last several years. We are not increasing, in other words, at all the amount----

Mr. Knollenberg. So you are maintaining the same programs that you have had in place?

Mr. Atwood. That is right.

Mr. Knollenberg. This is nothing new?

Mr. Atwood. That is right.

Mr. Knollenberg. Is at least \$150 million new? Is the amount of money new?

Mr. Atwood. No, it is not new. It is what we have been spending for the last three or four years on these kinds of programs. And the benefits may not--we perhaps tied them more to an effort to try to gain the developing world's compliance with an international regime on climate change. There is no question that we have done that in identifying these programs in that way, but it is not new from what we have done before because it is just generally a good thing to do.

Mr. Knollenberg. There is a certain sum of money, a global pot, that comes obviously with the foreign aid bill. Do you see any specific monies being taken from other areas? Has it been taken from other areas or has it always been tied up with specifically the environmental account?

Mr. Atwood. It has always been specifically tied into the environmental activities, which do two things: global climate change-related work and biodiversity, protecting biodiversity. Those two things will not change. We don't need to change our budget; nor do we need to take it from other parts of the

budget.

Mr. Knollenberg. I believe my time has expired.

Mr. Callahan. Mr. Kingston is recognized.

Mr. Kingston. Thank you, Mr. Chairman.

Mr. Atwood, you are familiar with the results, correct?

Mr. Atwood. Yes, I hope so.

Mr. Kingston. What were your results scores, your percentages?

Mr. Atwood. Results scores? It depends on the area that you are talking about.

results act

Mr. Kingston. Why don't you tell us as many as you know.

Mr. Atwood. What we are attempting to do, of course, is in each of the areas that we have as strategic objectives--let's say it is in our family planning programs--we have very specific indicators as to whether or not we are succeeding. For example, we can tell you per country, if you wish. In the country of Kenya, where the fertility rates five years ago for women were 5.7 children per woman, we have reduced those fertility rates down to below 3 now in Kenya, a very dramatic example of results from our programs.

We could do the same thing in other areas. If you were to take an environmental area where our main concern was protecting rain forests, we would look at the amount of rain forest in a particular country that was protected by our programs. That would be a particular result and an indicator that we would use for that.

Mr. Kingston. What I really meant, and I appreciate that answer because I am glad that you are looking at those, and that is an internal thing, but the Results Act--

Mr. Atwood. The Government Performance and Results Act, yes.

Mr. Kingston. Do you have a performance review under that?

Mr. Atwood. Yes, we have an annual review of our programs. We call that an R4 process where we look at results that have been achieved and, of course, attempt to relate the budget to the programs that are producing the best results.

Mr. Kingston. And where were the results of your reviews?

Mr. Atwood. What I could do for you for the record would be to give you results from a particular R4 review and tell you exactly in that case. I don't keep all of these in my head, unfortunately.

[The information follows:]

The attached results information has been extracted from the FY 1999 Results Review and Resource Request (R4) for USAID/Poland.

[Pages 152 - 205--The official Committee record contains additional material here.]

Mr. Kingston. That would be good because, as you probably know, many of the Results Act's indicators that came in were spotty, at best. And one of the things that has been

disappointing to me, as an appropriator, is that in the last year or so we kind of moved away from really focussing on the best utilization of taxpayer monies and so forth.

I am glad to see that, for example, you all are only asking for a modest increase, but it is an increase and we are still \$5.4 trillion in debt, which we, in Washington, seem to constantly ignore and forget.

So I think it is important for us to really get back to the basics. And I know that a lot of the agencies and bureaucracies do not like the Results Act, do not like the fact that last week we took another swing at it in terms of legislation, but it is something that businesses have to do every year and we are spending money that is not our own money and we have to be very careful and mindful of it.

Mr. Atwood. Absolutely.

Mr. Kingston. So what I will do is submit some questions for the record on that and would urge you to follow up on them and make sure that we are moving in the right direction.

You are going to Africa next week, or tomorrow, is it?

Mr. Atwood. I am going on Sunday, Mr. Kingston.

Mr. Kingston. You have mentioned that in a couple of places in your testimony. What are your prime goals in terms of African trade and your trip in general? Two or three points.

africa

Mr. Atwood. I think what the President's trip is designed to do is to show the American people that there is more to Africa than just crises, that there are many governments there that are doing extraordinarily well in terms of achieving democracy and market economies and the countries that he is visiting underscore that point in particular, that if we provide the right kind of assistance, we can encourage these countries to trade and invest and sustain economic growth without our development assistance over the long run but that they need it now. And that aid can create trade, and these countries can enter the global economy, and we can benefit from it, as well.

Mr. Kingston. Now, I cannot remember, and if you don't know the answer yourself or don't want to discuss it, there is no problem--did the Administration have a position on the bill last week about African trade?

Mr. Atwood. Yes, sir. We supported that bill.

Mr. Kingston. You supported it. And do you anticipate it being passed as is in the Senate?

Mr. Atwood. We certainly hope so, Mr. Kingston. I understand that it is not likely that it will pass the Senate before the President leaves on Sunday because of the schedule over there, but I think the prospects are good that it will pass.

Mr. Kingston. And it is complementing what you are doing, then.

Mr. Atwood. It very much complements what we are doing. It provides an incentive to African countries to continue reforming their economies and their political systems so that they will then have more access to the American markets in certain areas.

Mr. Kingston. Thank you, Mr. Atwood.

Thank you, Mr. Chairman.

Mr. Callahan. I will just remind you, Mr. Administrator, while you are flying to Africa with the President you might remind him that this committee does not consider a toast an obligation of this country. In the past, not only with President Clinton but other presidents, including first ladies, have gone to these foreign countries and obligated the United States for huge amounts of money.

So whatever the President wants to obligate, tell him to take it out of your '98 appropriations level if, indeed, it is going to come from your agency. Do not obligate this committee to fulfill a promise made by toasting a leader of any country.

Mr. Packard. Thank you, Mr. Chairman. I apologize for not being able to be here for your testimony. It is often that we have other committee assignments and that makes it difficult sometimes.

ukraine

On Monday the IMF suspended its \$542 million loan agreement with the Ukraine. Then just yesterday the World Bank suspended \$600 million in loans to the Ukraine. This has been reported that the reason was their failure to meet the conditions and their lack of economic reforms.

Could you address those issues briefly for the committee?

Mr. Atwood. Yes, Mr. Packard, and thank you for asking the question. We have a situation in Ukraine which is probably the case in a lot of new democracies where we have an executive we have worked with, President Kuchma, who is very much dedicated to a reform process and we have, in the case of the parliament, the congress there called the Duma, a lot of resistance to economic reform and change. And we are trying, through our own aid program, to influence the process by working with nongovernmental groups, if necessary, or working with the government when we can, such as in the effort to privatize the economy, to influence them by providing information as to why this is good for the Ukraine, to engage with the Ukraine to try to change the circumstances that caused the IMF to make the decision that it made.

We are also, because of congressional constraints, going to have to make a decision by April 30 as to whether or not Ukraine is complying with the requirement that it solve disputes with American companies and the like. Otherwise they will suffer a cut of one-half in the aid program, and we are watching that very closely and will make that decision on that date.

Mr. Packard. The Secretary of State just returned from there or just recently went to the Ukraine and that was one of her specific items of agenda, the corruption and the conditions on the funding that was to pass through and withholding part of it.

Did she give a report to you or are you aware of what the outcome of her visit was?

Mr. Atwood. I understand that she has testified up here on it, that it was a mixed result. She clearly made her views known and reminded people that she has to make a decision by

April 30.

At this juncture I don't believe that all of the changes have been made and I think she has also said that publicly. But we are hopeful that we will see some change before April 30.

Mr. Packard. We know of no better way to put pressure on the Ukraine to make these economic reforms and, of course, to clear up the corruption than to tie it to the assistance that they receive. That country has received more assistance than any other country, other than the Middle East countries, in the world. And I think that the effort that we are making to force those changes or to certainly give strong encouragement by economic withholding of funds is the best approach.

Are you in agreement that that is probably the best way to deal with them or there is a better way?

Mr. Atwood. Well, Mr. Packard, I am glad you asked the question because this isn't just a transfer of money to the Ukraine. What we are attempting to do is to help them create economic systems that would make corruption much more difficult.

So to the extent that we have cooperation to do that, and we do from the executive branch if not from the parliament, then I think that engagement is a better way to deal with the corruption problem over time. But frankly, we have our laws and we will follow them and, if necessary, we will cut off assistance. I hope that it will not be in areas where we are actively working to get them to change their system.

The biggest advantage to those who are corrupt in Ukraine is the activities that occur in the so-called informal economy, under the table. And what we want to do is to make those economic systems so open and transparent that they will not have that advantage, and they know that. So some of the most corrupt individuals in all of the Ukraine may hope that some of those programs that we have under way would be cut.

Mr. Packard. Thank you, Mr. Chairman.

cash grants to african countries

Mr. Callahan. Just briefly, before we go to the second round, Mr. Administrator, two or three things. One, the cash grants to African countries. We touched on that but I might forewarn you that if we see a cash grant to a foreign government, this has not worked in the past and I don't know why we think it will work this year or any other year. We are going to look at that very carefully, to the extent of possibly placing a hold until we can further review the transfer because that is not the intent of the USAID program, to give cash grants to governments. And I really don't think we ought to move back in that direction again. Maybe you should leave that type of activity to the Treasury Department; let them transfer cash to any government, whether it be in Africa or anywhere else.

haiti

The Haiti situation, once again, Brian, we do not want to run your agency. We appreciate your professionalism and that of your staff, but we are not going to give a \$70 million increase

to Haiti unless you can find room to increase percentage-wise that amount of money to other nations in Latin and South America and the Caribbean.

Once again, we are going to have to put a percentage factor there. We do not want that percentage factor of money spent in this hemisphere violated. If you want to work with us to try to take money from other areas of the world, we would be happy to work with you because all of us agree that Central and South America especially and the Caribbean need assistance.

But we are not going to provide you just with money increases to satisfy the black hole that we are dumping the money in in Haiti. They are making zero progress. They are not privatizing. They are not doing anything. The only economy they have is our military aid and our assistance. And you still have a government that is less than transparent in their activities and I don't think we ought to be rewarding that type of activity. So Haiti is going to be a big, big problem, at least with me.

I will let you respond to all of those things but I want to get to the second round.

pipeline reserve

The third thing I want to get to today is the inspector general, in a draft report, indicated that you had a couple of hundred million dollars in a pipeline, about \$400 million, I think, \$264 million excess, not needed, as defined by forward funding guidelines, and also \$148 million which was unspent after all required goods and services were delivered and the activities have been completed.

I realize this is a draft report but briefly, can you give us any indication as to whether or not that is factual or whether or not there is an answer to that pipeline reserve?

Mr. Atwood. Yes, Mr. Chairman. The IG did a spot check to look at the pipeline and came up with this number. We are now looking at it very closely. When we talk about overobligating funds, we are looking at several possibilities for what may have occurred here.

One possibility is that people have taken to obligating all at once, as opposed to waiting, as they have, because we have had some very serious staffing problems and they may want to take fewer actions along the way. Another possibility is that we have had, for example, a commitment of funds to the Egypt program to try to convince them to privatize and we would then disburse after they have privatized, but they have been moving more slowly than we would have hoped.

Mr. Callahan. There is no time for an in-depth analysis of it. I guess, if you will, get someone to provide us, hopefully this week, an explanation of it.

Mr. Atwood. Absolutely.

Mr. Callahan. We can go into it country by country, program by program, but I would violate my five-minute rule.

Ms. Pelosi.

Ms. Pelosi. I thought, Mr. Chairman, you were going to give Mr. Atwood an opportunity to respond on the Haiti question on your time.

Mr. Callahan. He can respond on your time.

Ms. Pelosi. Oh, I hope we have a third round.

In that case, I want to associate myself with the interest expressed by my colleague, Congresswoman Lowey, and others on microlending. I am glad to hear you emphasize that \$135 million is the floor, that funding is at least \$135 million.

I agree with our Chairman and Mr. Torres that we should have increased interest in Latin America. I don't share the Chairman's view, however, on the Haiti situation. I do think there is progress to show and I will get back to that in a moment.

I associate myself with Mr. Wolf's concerns about the Sudan, and East Timor, and Tibetan refugees. I know you will get back to us from the State Department on the refugee issue. I am going to submit for the record, in the interest of time, my question on Bosnian war criminals. I just want to ensure that U.S. tax dollars are not going to go to those who are either indicted themselves or who are protecting the indicted, who are allied with those who are obstacles to the implementation of the Dayton Agreement.

I do want to get to two budget questions. One is, and if you could respond briefly in the interest of time, it is my understanding from this morning that staff has suggested that the supplemental bill may contain an offset of as much as \$250 million from USAID's development assistance pipeline. If that is so, could you tell me what the impact of that cut would be?

Mr. Chairman, can you confirm that?

Mr. Callahan. I don't have a number yet but I don't think it would be that much.

Mr. Atwood. The problem is, of course, that the pipeline represents a commitment of funds, usually to an American contractor, to do work for us, and that would cause a great disruption in our work and cause a lot of people probably to take us to court in the process. So it has to be done very carefully, I think.

child survival

Ms. Pelosi. I was concerned about the President's budget request calling for a 10 percent cut in USAID's child survival and infectious diseases account, including for health. I hope that that will not be the case. With the leadership of our Chairman, we have been able to sustain a reasonable level of funding for the AIDS program and other infectious diseases of importance to our committee, as well.

My question would be if you want to comment on that, fine, but I want to frame the question a little bit differently. As you know, the President and many Members of Congress have been calling for a drastic and sustained increase in funding for the National Institutes of Health. On my other subcommittee we fund the NIH and I have asked in that committee Secretary Shalala, as well as Director Varmus, about their international initiatives.

So I am going to ask you from this side, can you tell us what areas of research might most benefit USAID's health and development efforts and how the agency has made its priorities clear to NIH?

Mr. Atwood. We have developed a strategy, Ms. Pelosi, to spend the \$50 million that you have added to the budget last

year. The emphasis there is on research on anti-microbial resistance. This is a big problem for some of the malaria and other diseases that are becoming more resistant to the drugs that we are using and we need to know more about how to do this and how we can avoid that problem.

We are going to be doing research and doing application programs in malaria and in tuberculosis and in attempting to set up an international surveillance system. That means that national surveillance systems have to work well, as well.

So those are all areas that are part of our strategy and I will be happy to provide the detailed strategy to you for the record if you would like.

[The information follows:]

Infectious Disease Strategy

Attached is a copy of the Infectious Disease Strategy, ``REDUCING THE THREAT OF INFECTIOUS DISEASES OF MAJOR PUBLIC HEALTH IMPORTANCE: USAID's Initiative to Prevent and Control Infectious Diseases,' ' to which Mr. Atwood referred in his testimony.

[Pages 212 - 240--The official Committee record contains additional material here.]

Ms. Pelosi. I appreciate that. I would like that.

nagorno-karabakh

I understand that AID's assessment team has recently returned from Azerbaijan, from Nagorno-Karabakh, where they looked into a series of programs involving immunization, medical training and assessments, small-scale enterprise and agricultural production. What is the status of the implementation of these aid programs and when will activity on the ground actually begin? I have expressed to you in our own meetings our interest in helping Nagorno-Karabakh so they can help the Minsk process along more quickly.

Mr. Atwood. We have had a team out there that has identified some areas. We are about to sign a contract soon, this week or next week, on a health program, immunization program for children. We are looking at the shelter program. We have a team in Nagorno-Karabakh right now looking at a possible shelter repair program.

I did discuss this with you yesterday in private. Obviously what we do in this region is being watched very carefully by all of the parties to the Minsk Accords. There is hope and our negotiators are working assiduously on this to try to reach a peace agreement by the 30th of May.

Every one of the parties, whether it is the government of Azerbaijan, the people in Nagorno-Karabakh, the government in Armenia, where there is now an election and there is apparently going to be a run-off, are all watching carefully to see what the United States does.

I know what your intention was in hoping that generosity

would prove to people that it is worth their while to enter into these peace accords. All I can say is that if you feel we are being extra cautious with respect to how we move on this, we are. But we do have some programs in mind and will begin signing contracts to get those programs under way but, at the same time, watching very carefully to see what reactions are and how it impacts on the peace process during this very sensitive period.

Mr. Callahan. The problem in the Caucasus with Azerbaijan and Armenia Congressman Knollenberg has been my House expert on that region and I would invite you, Mr. Administrator, to utilize his knowledge of the problems there, especially with Nagorno-Karabakh and Armenia and the division between Armenia and Azerbaijan. He is very knowledgeable on that and I lean heavily upon him for his advice and I would suggest you do the same thing because he is very familiar with it.

Haiti

Do you want to respond to Haiti? I didn't give you the opportunity.

Mr. Atwood. Thank you, I would, to make a few points, Mr. Chairman, just so that people downtown know I am fighting for this increase, because I think it is worthwhile.

We were spending in 1992, 1993 and 1994 approximately \$400 million a year for the naval and Coast Guard blockade of this place so that we could both rescue boat people coming out of there and to try to avoid their coming to our shores to apply for immigrant status. That is a lot of money. We were spending a lot more money on humanitarian assistance during that period.

We believe we have made a lot of progress in this country. We don't have a lot of boat people today. We don't have riots in the streets, despite the continued political crisis that we are very frustrated about, as well.

But there have been significant results. The government-sponsored paramilitary units have been disbanded. Illegal immigrants are no longer flooding our shores. Since 1994 inflation has been cut by more than a half. Price controls have been abolished and the exchange rate has been liberalized.

750,000 people are using our improved farm practices and our microenterprise programs. 2.3 million people are receiving health services through our NGO programs. Infant mortality has dropped by 25 percent. 7,000 school teachers and administrators have been trained. The 5,200-member civilian Haitian national police force now exists and more than 700 judges and prosecutors have been trained. Today I think Haitians enjoy more freedom of expression and association than they have ever experienced.

We have major progress being made on the privatization front. The flour mill has now been privatized and Seaboard Continental Grant Unit Finance Consortium has taken it over. The cement plant has been awarded to Holder Bank, a conglomerate that is going to take over the cement plant, and the contract-signing is pending.

USAID is financing privatization transactions for the airport, the port, the telephone companies, and all of this is also being worked on by the World Bank. The telephone company

transaction has received three responses.

I think a lot of progress has been made. One may wonder. We obviously are very critical of the government for having this political crisis. They can't get a prime minister named for the last seven months. They haven't been able to do this. But the government is running. The president is still making decisions. There are ministries that are operating.

It is a problem of a new democracy where you have a battle between the two major political parties of the country. I absolutely expect that this will be resolved by the time this money is appropriated but in the meantime, I think we should be looking at this \$140 million request in the context of having to spend huge amounts of money to keep people from our shores, the \$400 million a year that we were spending previously and all of the money that we were spending for humanitarian assistance.

We are making this contribution, outside of Port-au-Prince. We are going to increasingly be moving our program away from the sort of political contenders in Port-au-Prince to the local mayors and NGOs that operate in the countryside to try to alleviate the conditions that people have to live under there. That, I think, will bring stability over the long run, but this is a long-term project that is, in my opinion, in American's interest to try to resolve.

Mr. Callahan. I don't want to debate that. You certainly know more about it than I would know. That is an awful lot of progress to have taken place in one week, and that is when all that privatization evidently took place because when we met with the new ambassador, it had not taken place 10 days ago. The privatization is not privatization just because they say it is privatized. If the same people are running the flour mill, that is not a change. That is the subterfuge to give some indication that progress is being made.

The government is the problem and when you have the lack of transparency, when you have a government being controlled by a former government, when investors are afraid to go in there because of the corruption. To improve things for Haitians, then there is never going to be any progress made. We can keep pumping in dollar after dollar.

You mention the immigration problem. We have an immigration problem with Mexico, but we are not pumping millions of dollars into Mexico to stop the immigration problem. You can't reward a country or its people for violating U.S. law, and that seems to be what we are doing. I mean, all we are doing is saying let's give them money and they will stay there and we will save money by not having to appropriate money to the Coast Guard in order to interdict the activities.

But it is a serious problem, Brian. It is like the naked king. We just refuse to look at it as a problem. All we want to talk about is progress. In our trip down there and all of the interviews we have made we have seen zero progress.

So maybe you are right. I hope you are right. I hope we are making some progress, but I can't see it. As of 10 days ago, the privatization was zero, whereas we met last spring with the Privatization Committee in Haiti and they told us it would be imminent in a couple of weeks. Now they are saying it has all been done in the last 10 days.

In any event, if you want a \$200 million increase in Haiti, that is fine with me, as long as it maintains a percentage of what else you are going to spend in this hemisphere. We are neglecting countries that are making positive progress and neglecting human rights, health, and educational problems that we could resolve in countries that are doing the right thing. Instead, we are saying we are going to give all of our resources to Haiti.

Now, if you want to spend \$100 million, \$200 million more in Haiti, that is fine with me, except increase the percentages that you spend in other areas, in other countries in this hemisphere; increase them accordingly. That is our charge.

So we are not earmarking. We are not unearmarking. We are telling you that whatever you spend in Haiti, whatever increase you have there, you are going to have the same increase in some other area of this hemisphere.

So that is not earmarking. I don't think it is micromanaging. It is just a point that I personally disagree with you on as to progress.

Ms. Pelosi. Mr. Chairman, if I may have 10 seconds.

Perhaps it is time for us to go back to Haiti so we can see what the progress is, since there is a disagreement as to what it may be. Perhaps we can go on our way to Chiapas.

Mr. Atwood. I would encourage that, Mr. Chairman.

Mr. Callahan. I will remind you that since that time they have a very, very severe problem in Haiti with cows grazing on the runway. It is not even safe. I am serious. It is not even safe to land in a commercial plane, if you could get a commercial plane to go in there.

But I wouldn't subject our U.S. Air Force pilots to that danger, much less my committee.

Mr. Atwood. If you will go, Mr. Chairman, I personally will go down and get the cows off the runway so you can land.

Ms. Pelosi. Thank you, Mr. Chairman.

Mr. Callahan. Rather than recognizing, if anyone has second round questions, why don't you so request?

Mr. Wolf. Mr. Chairman.

Mr. Callahan. Mr. Wolf.

Russia

Mr. Wolf. Mr. Atwood, two questions on Russia. Congressman Smith and Congress Hall and I met with a number of groups who maintain that there is implementation enforcement of the religion law in the Soviet Union, that mayors are enforcing it and people are being forced out of churches.

What is your position or the State Department's position with regard to cutting off aid, carrying the language that the committee passed last year that says, ``If implementation''?

Mr. Atwood. Well, we are obviously watching this very closely, Mr. Wolf. I think it is important that you included the word ``implementation'' in this. Clearly there is a law that has been passed but they are well aware of what the consequences would be if it were fully implemented.

I think that there was obviously, initially, at least, a dispute between the branches of government there over this law, but politics is funny in countries like this. There is then the

question as to whether or not they will implement it in a way that would cause them to violate our own law with respect to this issue.

We are watching it closely. I think probably it is not wise for me to publicly say more but I would be happy to meet with you privately and with some of the experts that are watching it on our behalf.

Mr. Wolf. Why don't we do that? If you would call my office and maybe involve Mr. Hall and Mr. Smith, too, at the same time.

Mr. Atwood. I would be happy to.

Mr. Wolf. The other issue, on aid to the Soviet Union or former Soviet Union, Russia, would it not be more effective, not with additional funds, but to take some of the funds that we now use, particularly because of the corruption and problems, and bring young Russians, aged 30 to 40, to the United States to spend perhaps three months working in a corporation or working in a university or working in our system, perhaps living with an American family, perhaps develop a relationship with the airlines at a discount to bring these people over? Most of the money would then be spent in the United States.

Secondly, they would then see our values. They would then see hope that if they do certain things, these are the potential possibilities. Might it not be good to develop a program like that, even within the budget restraints, to bring perhaps 5,000 or 10,000 over and only spend three months? I am not talking about spending a year or anything like that.

Mr. Atwood. Well, there is a program that is part of the larger program called the Bradley Program, wherein we do bring people over----

Mr. Wolf. How many of them----

Mr. Atwood. High school age.

Mr. Wolf. Well, high school? I am really talking about 25, 30, 35.

Mr. Atwood. Some of our programs have that as part of the training that would be done in terms of, for example, creating an entrepreneur class in Russia but again, I would have to look at those programs in detail to give you a fuller answer.

[The information follows:]

Russia Training and Exchanges

As you have indicated, despite the importance of the U.S. government's program of bolstering democratic and economic reform in the Russian Federation, we are operating there under serious budget constraints. As a consequence, we have necessarily focused the USAID program in a few key areas; support for reform of tax policies and systems, support for the development of a civil society, assistance for small businesses and entrepreneurs, environmental protection, and health sector reform. Much of our assistance in these areas features the development of partnerships and community linkages between the United States and Russia.

I am pleased to note that training of managers and small business persons has been and continues to be an important element of our Russia program. Thousands of Russians have been trained in-country and sent to the United States for a variety of internships, primarily in the business area. Since assistance to Russia started in 1992, USAID had trained over 200,000 Russians in the area of business and management

skills and has sent an additional 3,000 Russians to the United States for training and internships.

As you point out, we have found young Russians with whom we have worked to be particularly eager and energetic proponents of market reform in their country. In addition to working with active entrepreneurs, we have helped train a future generation of leaders by supporting Junior Achievement Russia, which is increasing the awareness of Russian high school students about the benefits of market economy through training and hands-on business competitions. USAID efforts have helped Junior Achievement Russia expose more than 500,000 Russian high school students to this market-oriented training. In fact, Junior Achievement Russia is so successful that it is second only to the United States in the worldwide Junior Achievement Program.

Under the Presidential Management Training Initiative, an additional 500 Russians will be sent to the U.S. for 3 month internships this year, with a possibility of increased numbers in the years to come. Given the importance President Yelstin places on this area, the Russian government has committed to fund the air travel of the participants selected for the U.S. internships. USAID's Community Connections Program has since 1994 funded a total of over 3,300 internships for Russians in the area of business, economic development and educational administration. The Department of Commerce's SABIT Program has successfully trained over 726 Russian managers and scientists in a range of industries.

Even these programs are running into obstacles which a much larger program might find difficult, if not impossible, to overcome, specifically, there is a shortage of American businesses willing and able to absorb interns and teach them substantive skills; there are a shortage of English speaking Russians who can benefit from these types of programs; many qualified Russians cannot get 3 months leave from their companies.

Yet in spite of these obstacles and the budget constraints you noted, training of Russians in management and business will continue to be an important element of our assistance in the future.

Mr. Wolf. If you could, you could use 1,000 Points of Light. You could use the private sector. You could use the universities. Certainly they could come and fly at a discount rate through Delta or whatever airlines, stay in a private home, work in Dow Chemical or work in Mobile or work in Coca-Cola for three months and then go back.

I think there is a greater opportunity of them catching the vision as to why it is important for them to do the right thing if they can see what the end results are rather than us sending people over there to try to teach them.

Mr. Atwood. I think that is an important part of our program. I am not sure it goes as far as you would like it to go but I think you are right about exposing people to our values and to any society that is more stable and more value-oriented than the new democracy that exists there, where there are major gaps, major problems, major mafia groups that are creating problems in Russia, major problems of understanding moral issues. For example, the churches are still weak in Russia and we would like to think that with democracy and freedom of expression, that those religious values would come back into that society where they existed before.

Mr. Wolf. I think individuals are more likely to do what

they have to do, be bold, be courageous, be heroic, whatever, if they can see what the potential is. And you can read about it but if you come to America and see it, I think you are willing to go back and work harder for it.

Mr. Callahan. Mrs. Lowey.

Mrs. Lowey. Thank you, Mr. Chairman.

I just want to associate myself first with a few of my colleagues; first of all, my colleague Congressman Wolf. When I was there with Speaker Gingrich--I think it was '93, '92--the only thing we could agree on, coming back, was that money should be put in exchange programs. So I certainly would like to associate myself with my colleagues and get a report as to the status of those exchange programs.

nagorno karabakh

Secondly, I want to associate myself with my colleagues regarding Nagorno Karabakh and make it clear that those of us who have been in that region with the Chairman are cautiously optimistic, very hopeful that perhaps the Minsk group can come up with an agreement to solve problems in that region. But I also want to caution that by being overly cautious, I am concerned about the dire needs in Nagorno Karabakh and would hope that we can respond with assistance now. So I understand there has to be a careful balance but we can't ignore the dire needs of people in that region.

basic education funding

Thirdly, I just wanted to mention that I share your views regarding education, making it a prime mission of AID because we have seen the statistics that if a family is educated, this directly impacts child survival. And I believe you said someplace in your statement--I am not turned to it right now--that we know it increases the quality of life of a child in a family that is educated.

And with regard to that, despite progress, despite investments over the last 30 years, about 1.4 billion adults in the developing world, as we know, are illiterate. Only half of the world's children attend primary school. There are great disparities between the proportion of boys and girls attending school.

Given these realities, education and training must be a priority of the United States foreign assistance. Unfortunately, basic education funding has decreased, to my amazement, in recent years from \$135 million to \$98 million in the last two years, which is very disturbing to me. Could you discuss your efforts to increase our commitment to basic education funding and let us know if USAID did spend the fully allocated \$98 million in basic education funding in FY97?

I ask this because I feel so strongly that we have to increase our investment in basic education funding and I would like to get as much information as possible to bolster that case.

Mr. Atwood. We made a decision back in '93 that perhaps in hindsight wasn't a good one, but that education was so important that it ought to be a crucial part of every one of

the other strategic objectives of the agency. I have recently revisited that issue and have made education one of the six strategic goals of the agency itself.

I think the message that sends, at least I hope the message that sends, is that people in our missions will be actively looking for opportunities because it is clear that education is so important.

We had a rather dramatic manifestation of that when President Konare, who is arguably the most democratic of all African leaders, visited President Clinton recently and said, ``I believe in democracy. We have a democracy in Mali but I cannot sustain it if only half of my children are receiving an education.''

I think the consequence of that is that the President will be spending a lot of time discussing education on his trip to Africa and you will be hearing in one of his toasts, with always the caveat that Congress has to approve the funding, the footnote in every toast that he gives, that, in fact, he is not only going to help Africans but is urging Africans to invest more in education themselves.

Basic education being the most important, this goes to the literacy issue that you raised, but we also need to be thinking about secondary and tertiary education because these countries have to be able to sustain what it is we help them with in terms of basic education.

Mr. Callahan. We might give Mrs. Kaptur the chance to ask her first question. Your six minutes have expired.

I might just comment on that, Brian. I know the Administration goes over there and they make all these pledges and agreements to assist, provided Congress will give them the money.

Then we go over there and what we have been doing is taking a member of the Ways and Means Committee with us and telling these leaders, ``Well, if the Ways and Means Committee will raise more taxes, we will give you more money.''

So I don't know what the Ways and Means Committee is going to do.

Ms. Kaptur.

Ms. Kaptur. Mr. Chairman, I want to thank you very much and Congresswoman Pelosi this morning for your courtesy.

We want to welcome Mr. Atwood. Sorry I had to go to a ceremony over in the Capitol for the return of a replica of the crown of St. Stephens to the United States from the nation of Hungary after 20 years of the crown having been moved from Fort Knox to Budapest. So I apologize for having to step out.

Mr. Atwood, I will only focus on one area of questioning directly to you today at this point. I will submit questions for the record on the progress AID is making on the implementation of language included in last year's appropriation bills on a medical exchange program between the American College of Physicians and physicians in the NIS. I will be submitting questions on credit unions and cooperatives and the extent to which you are encouraging those in your work.

I will also submit questions on whether your definition of microenterprise includes farmers and farm production, as well as merchant and trade and investment activities. How are you implementing the P.L. 480 Title II to accomplish feeding programs for the poorest of the poor around the world. I will

be asking many, many questions on agriculture in our submission to you for various parts of the world.

aid staffing

Today, I wanted to ask you what are your total full-time staff equivalency (FTEs)? I couldn't find in the little blue book.

Mr. Atwood. I can't give you the exact detail but it is about 7,000 now, including Foreign Service national employees overseas, as well as direct hire Americans.

Ms. Kaptur. All right. Can you give us a ballpark, how many consultants are hired through those 7,000 persons? What would you guess in terms of the numbers of persons that work under contract to USAID in any given year?

Mr. Atwood. I will tell you, I have this chart which has print that is so small I can hardly read it but it does provide you with each of the categories. We do now have, unlike what we had when I came in '93, we have a good fix on all categories. I am trying to give you a ballpark.

agriculture

Ms. Kaptur. My bottom line question really is what percentage of either the consultants or those who are FTE full-time USAID people are actually people who have hands-on farm experience at the local level, people who can do everything from read the markets to grease a disk?

Mr. Atwood. Well, I am not going to be able to give you a specific now but I am glad you asked the question because we have had to reduce the number of people that have agricultural skills because our overall budget for agriculture has gone down so significantly in the last 20 years, not just the last few years.

But also, when we had to accommodate our staff to the operating expense resources that we had, we had a RIF, a reduction in force. And one of the categories of people that we had to reduce were agricultural experts. I can tell you that we have 61 U.S. direct hire staff serving as agricultural officers and a few other U.S. staff with an agricultural background that serve as general development officers. We are currently unable to tally the number of contractors, consultants or RSSAs that provide technical assistance in this area.

Now we are beginning to build back up our agriculture budget and I know my good friend Peter McPherson and a group of university presidents have called for a \$500 million a year agriculture----

Ms. Kaptur. I guess as I look at the NIS, what scares me the most, especially in the villages where most people live, is the ability of people to weather the transition and feed themselves. And to the extent, at a policy level, you can have any influence on the type of individuals who are hired directly by USAID and the type of consultants that are out there, I think page 14 of your testimony in many ways leads me to this observation. I congratulate you on whatever you are doing with Rockefeller Brothers, Ford, Soros, Mott to create evenly matched public/private endowment to encourage a range of

economic think-tanks.

What I have noted is there are lots of people dealing with the upper strata, and that is very important because you have to have an intellectual lead in any country. On the other hand, you have to look down the chain to where people actually live. And where I have found U.S. programs in general to be very lean is in finding practical ways for people to survive the transition.

In many, many of these countries, including Russia itself, agriculture is absolutely key and I am fearful that we, as a world, are not meeting that need at ground level.

Mr. Atwood. We have a number of programs. I am trying to remember the names of them specifically, like Farmer-to-Farmer of America, Volunteer Farmers of America and the like, where we actually put real farmers on the ground to help teach people techniques that we have learned over the years.

Perhaps we don't do enough of that but I know those programs are effective where they are. I have seen them in both Russia and the Ukraine, in fact, on the ground.

Ms. Kaptur. I would encourage you to look at the short-term nature of many of those exchanges, and the rather sporadic way in which these institutions relate to entities on the ground. If you are really going to make progress, I would suggest working more closely with our land grant institutions. If we are going to have a more continuing, sophisticated agricultural presence, where people are not just constantly rolled with the dice every six months or one year, where institutions and individuals are changing you have to have a more continuous developmental process that goes on in terms of rural development or we are not really going to make a significant difference in the amount of time that we have to help these folks transition.

I know we are working at the highest levels trying to get the grain elevators privately purchased. Someone has to look at this at the grassroots level and I would hope that the cooperative and credit union mechanisms we have in place could be helpful for that, as well.

I wanted to ask a question about the P.L. 480 Title II, and I realize that that money comes through another appropriation but how do you actually encourage feeding programs for the poorest of the poor under that title? I understand that many of those have been cut back because they are harder to measure.

Mr. Atwood. I don't believe that is correct and if people believe that is correct, we either have a perception problem or we have a real problem that we need to get to the bottom of.

There are development programs that are undertaken under P.L. 480. There is clearly a desire that we focus on agriculture-related, food security-related issues in that Title II program. We also want to focus on the poorest countries. But a lot of the Title II program in recent years has gone to emergencies and that, of course, is a controversy within the PVO community because we are living with more emergencies than ever before, so more of Title II is now used for emergency purposes.

But we have a few PL 480 development programs even in places where AID has no field missions; we have made some exceptions and allowed people to work in nonpresence countries.

I think of Burkina Faso and the Gambia, for example, where the Catholic Relief Service wanted to continue programs in those countries.

That has not been affected by our effort to emphasize results. What we have insisted on when they have proposed to work in those countries is that they tell us what results they would achieve with the resources that we provide. But we have gone ahead in the case of Burkina Faso and the Gambia, making exceptions to our general desire to have people working in countries where we have a presence, and allowed that to happen.

So I don't believe that the results criteria have stopped these programs if they are worthwhile and if they can demonstrate that they do achieve results.

Ms. Kaptur. I thank you. My time has expired but we will submit additional questions on that for the record.

Mr. Packard [presiding]. You may either do that or we will reconvene after the votes. There are two votes on. We would like to have Mr. Knollenberg address his questions before we adjourn for the votes.

nagorno karabakh

Mr. Knollenberg. Thank you, Mr. Chairman.

By the way, I wanted to associate myself with my colleagues regarding Nagorno Karabakh. I know that first tranche of \$2.3 million is on its way. I recognize it does not touch into the infrastructure but I hope, by the needs assessment that will be forthcoming, that something will be done in the very near future on that.

Also I wanted to comment on microcredit programs as well, and I would like to see these programs help the very poor with loans under \$300.

I want to get back, though, to the question, because I am bothered a little bit about this and I am not trying to turn it into any kind of debate, but this business about environmental programs and climate change. According to information I have here, the environment did go up by \$46 million.

credit authority

Mr. Atwood. In our request. That is right.

Mr. Knollenberg. In the request, yes, and the \$150 million I was talking about, which was a program that was the noncredit category. Now I want to talk about the credit programs.

Mr. Atwood. Yes.

Mr. Knollenberg. I understand that--and by the way, the House opposed this last fall in conference but it was tucked back in. Development credit authority can create and provide loan subsidies which, when factored, can amount to five times whatever the amount might be, which could be close to \$1 billion.

My question is how much of this money is going specifically to climate activities. My concern is that money is fungible. If you increase the environment category, which you have done, by some \$46 million, I believe we have to pass authority or judgment on whether you can increase that for climate change; is that not true?

Mr. Atwood. Yes. You obviously----

Mr. Knollenberg. How much freedom do you have in that? You can't just interchange, can you? What I am trying to do is get to an accounting of just how much money goes to climate related activities. And the credit authority program could be a substantial amount of money that would go for these purposes entirely. I would like to know if you can tell me what amount of the credit authority is potentiality going for climate programs.

Mr. Atwood. The honest answer is that nothing yet is going. We have received authority from this committee, reluctantly, to have a direct credit authority, but there has been a great deal of skepticism, because of past performance, whether we could manage such a program.

We have now reached an agreement with OMB on a seven-point plan to give us the capacity to manage the DCA program and expect by the end of this fiscal year that we will receive a certification from them based on out-sourcing our accounting of that program and based on what we expect will be the conclusion that our analysis of credit-worthiness, our capacity to do that is very good inside AID.

But the preponderance of those resources--again, you are right. For each dollar, and I think we have asked for \$15 million of the direct credit authority in this budget--that could leverage as much as 10 times in terms of the country, depending on the credit-worthiness of the country. That is why it is so valuable to us.

That would be, for the most part, funding energy efficiency programs, infrastructure that could relate to global climate change. You may agree that these are things that we should do, whether or not we label them as global climate change, because energy efficiency programs are both advantageous to the country and to our own people who are working in this area.

Mr. Knollenberg. I understand the advantages but I think we also have to get a fix on the cost, just how much money is being spent on climate programs, because in this country there could be regulation via the EPA or executive order in attempts to regulate into effect part of the Kyoto Accord. And I am trying to determine just how much money within the foreign aid budget could find its way into climate-related activities toward this end.

Mr. Atwood. Our hope is that we will be able to find \$150 million per year out of our regular development assistance account that would go to those kinds of activities, plus getting the direct credit authority in order to spend, say, \$15 million by whatever the leveraged multiple is on those kinds of activities, as well.

Mr. Knollenberg. So it could be a fairly decent sum that would be spent.

Mr. Atwood. Well, the actual impact on the budget wouldn't be any more than \$15 million for the GC----

Mr. Knollenberg. I understand that but I am just saying how much goes into the GCC budget or pot and I guess you are saying that we don't know that yet.

Mr. Atwood. Right.

Mr. Knollenberg. We need to be very watchful of that because frankly, it isn't that we are for or against clean air,

et cetera, but when the foreign aid budget is utilized for that purpose, then maybe something should give over here. That is why we want to know.

I yield back to the Chairman. Thank you.

Mr. Packard. There is a vote on now and it will go for another seven minutes, then a five-minute vote, as I understand it.

We will reconvene somewhere near five minutes to 12:00. Perhaps Mr. Frelinghuysen or one other member of the committee will be presiding.

Mr. Callahan [presiding]. Mr. Administrator, let me also add that I know Mr. Packard and I have a meeting with the Speaker to discuss the supplemental at 12:00, so we are not going to be here. Mr. Frelinghuysen and maybe Nancy, some on your side might have some additional questions.

Mr. Atwood has another meeting at 12:15 that he has to get to so if you will, Brian, just stick by and we are going to ask Mr. Frelinghuysen to come back and even preside in order to get you out of here in a timely fashion at 12:15.

haiti

We appreciate your coming. When we attacked you with respect to concern about countries like Haiti, it certainly is no reflection upon you personally. These are serious concerns that we have and we appreciate your cooperation and sharing our concerns, even sometimes if we have different philosophies. All of us are always trying to get to the same corner of the room. You want to go to the left because you are a Democrat and I want to go to the right to get there because I am a Republican.

Mr. Atwood. I want to go straight to Haiti with you, Mr. Chairman, any time.

Mr. Callahan. That is the first invitation I have had of that. I have had some similar ones. They didn't mention Haiti but it was awful close, and people suggested that I go by myself. [Laughter.]

In any event, Brian, I will not be back but if you would, just stick around and as quickly as they come back, just ask Mr. Frelinghuysen to preside. And if anyone would like--in fact, we will go ahead, without objection, and give the authorization to any member of the subcommittee to submit their questions in writing within five days and we would appreciate your expeditious response to those questions.

Ms. Pelosi. Mr. Chairman, if I may, and maybe you don't have to be here for me to do this. I hope to come back in a timely fashion but depending on how many of our colleagues have questions, I may be submitting for the record or presenting to the administrator a question about the Democratic Republic of the Congo. I am concerned about the status of the Administration's intentions regarding a Section 614 waiver with respect to the Congo.

I also had some questions about the \$925 million to Russia, increased from \$770 million this year. And I had some questions about AID's programs to be altered and expanded to ensure that new investments in Russia and other republics are environmentally sound. And if I come back, I will ask my war criminals questions but those are ones that I just want you to

know, Mr. Chairman, are areas of interest either in real life, in real time or for the record.

I, too, want to join you in thanking Brian for his leadership and for making himself available for such a long time today. And I think we should go to Haiti.

Thank you, Mr. Chairman.

Mr. Callahan. The committee will recess until Mr. Frelinghuysen or Mr. Knollenberg get back to preside.

[Recess.]

Mr. Frelinghuysen [presiding]. Mr. Atwood, I would like to reconvene the hearing. I am not sure how many of my colleagues will be back but in their absence, since I am the chair, I have the ability to ask any questions I would like.

Mr. Atwood. That is great.

Mr. Frelinghuysen. Let me echo, since I don't want it to appear that Chairman isn't the only person that has concerns about Haiti, while our trip there was relatively short, it is one that anyone who participated in will remember for a long time. And that is not to say that we shouldn't go back, but I personally was appalled by what I saw.

I could admire those who work there on our nation's behalf and other nations but it seems to me when you don't have such things as a potable water supply, garbage collection, it really makes you wonder what sort of regime we are supporting. Maybe the alternative is, as you say, even more frightening, but you would have to convince me a great deal, since we have already spent over \$3 billion in Haiti, that all those dollars have been well spent, since it appears that a lot of basic services are not evident.

I would think without those basic services, and this leads into my line of questioning, you would have rampant infectious diseases.

I would like to talk about that account for a minute. Mrs. Pelosi said last year we provided \$50 million for the infectious diseases initiative. You have \$30 million in this year's budget.

The first question is is this enough?

infectious diseases initiative

Mr. Atwood. Mr. Chairman, I don't think that any of the categories of our budget have enough. What we hope we can do is to, with the \$50 million, to put forth a strategy wherein we can attract contributions and involvement from others.

I just had a note from Dr. Varmus of NIH. They want to send someone over to work with us on malaria. I have a note from someone from CDC. They want to send a person up to work with us on this infectious diseases business. The World Health Organization--there are a lot of organizations that have their own resources that if they feel as though they have contributed to the overall development of the strategy, will put their own resources into implementing it. And that is what we have sought to do.

So my answer is that if we were to do it all ourselves, it wouldn't be enough, but we think that in relation to the other needs we have in the budget, that it is an adequate request.

Mr. Frelinghuysen. Specifically to your tuberculosis

initiative, I have a concern about recent reports about tuberculosis hot zones around the world. The numbers are simply staggering. One hot zone alone, Siberia, there will be an estimated 1.5 million deaths over the next three years. Worldwide I have seen figures as high as 30 million deaths from TB over the next three years. I am not sure where they measure out against the AIDS epidemic which, of course, is another critical area both, I assume, in Russia as well as the continent of Africa. We also face the additional problem of more virulent strains of TB.

I would like to know what we are doing specifically relative to tuberculosis.

Mr. Atwood. A major part of the strategy is to concentrate on tuberculosis, not only to do the traditional treatment process that works very well but also to do some research to see what can be done in this area.

We have been strongly supported by a group from Princeton, which is in your home state, which has been very helpful to us in developing the strategy. They have come down and consulted with us, so we appreciate that very much.

But in terms of getting into a medical area that I would find difficult to discuss with you, I think I would prefer to give you a full and complete answer as part of the record. We have some medical doctors who work at AID who are really outstanding and I would rather have them come here and answer those questions. They will be able to provide you with an answer for the record.

Mr. Frelinghuysen. So we are doing some domestic partnering.

Mr. Atwood. Yes, indeed.

Mr. Frelinghuysen. And what about working with the program that is being funded by George Soros in Russia? The objectives seem to be somewhat parallel. If we were to work together, and perhaps we are, could we do more?

Mr. Atwood. Yes. It is a good program. We have had a medical partnerships program in Russia that addressed systemic health issues. We have attempted to modernize medical and nursing curricula, work on health management training, workforce planning, infection control and health promotion. In some of these areas the Soros Foundation is also working.

I can't say that in the case of the NIS that as large a portion of the budget goes into health as it perhaps should, given the conditions there, but we made a major commitment to transforming those societies in terms of their governance, democratic governance, and the market economies. So most of the resources go into trying to implement that strategy and if we succeed there, they will have more of their own resources to put into the health area.

Mr. Frelinghuysen. Shifting gears, I would like to get some further comment from you from that portion of your prepared remarks entitled ``The Budget Squeeze'' category.

You have in your remarks here, ``When overall budgets are cut and earmarked items remain intact and when earmarks increase faster than overall budget increases, important development programs are jeopardized.''

You raise here, and I quote, ``A case in point is Indonesia, where beginning in 1995, the combination of decreasing operating expense funds and the scarcity of program funds for economic growth activities led to the decision to curtail USAID's large and diverse policy and institutional reform programs.''

Well, I am not intimately knowledgeable about what you were doing in 1995 and prior to 1995. You did say in your statement that you were advising the Securities and Exchange Commission, you were advising the Ministries of Plan and Finance. I assume you weren't alone in those types of advisory positions. I am surprised by how many groups are in that part of the world. You have TDA. You have OPIC. You have the Ex-Im Bank. I assume they all have players cross-pollinating and supporting in one way or the other the financial and planning apparatus. Would that be your assumption, as well?

Mr. Atwood. Yes, but they have a different function. Their main goal and mission as agencies is to promote American trade, and that is a very worthy goal, but when people from, for example, the Indonesian government look at people representing trade promotion agencies, they say, well, there is a more narrow national interest that is being pursued here rather than the development of our economy.

So I think the fact that we have been on the ground for so many years and have helped train so many of the economic team in Indonesia, one could suggest that perhaps the training didn't go far enough.

Mr. Frelinghuysen. That was going to be the next question. With all these high-powered groups in there, some with particularly financial objectives in terms of cash flow and capital investment and opening markets for American companies and investments, you had a particular role with the Ministries of Plan and Finance and certainly your people and others must have been aware that there was a huge amount of corruption, nepotism, cronyism, financial mismanagement. Did we miss something along the road here?

Mr. Atwood. No. We saw it. We saw the vulnerabilities of the system. We attempted obviously to work with people that were attempting to clean up the system. It is obviously delicate to talk about publicly but I think it is fairly obvious what has been happening. There is a good dose of crony capitalism that has occurred as that country has grown up over the years and the people who practice this for their own benefit, to establish a power base in the country, have resisted the kinds of reforms that we have been promoting.

But I do think if we can work with a finance minister or a minister of plan that is a reformer and put an adviser in their office, if we have that much trust, this is a good thing. But what we had to do because of the squeeze that you allude to was to reduce our staff considerably and take these advisers out and we basically negotiated to put World Bank advisers in, people from other countries that might have had other motives into these ministries--not motives of maintaining corruption but motives that would have served their own countries' interests more than ours.

So that is what I mean by the squeeze. I want to make it clear, Mr. Chairman, I am not blaming the Congress for the

squeeze alone. The executive branch has its own priorities. We say we want, as someone said here earlier, \$46 million more for the environment, we look at our budget carefully to decide what is the right kind of balance. We send it up here, recognizing that you have a right, under our system, to make your own judgments about what should be here.

The combination of the two, though, does reduce the flexibility that we have and when you do have a budget crunch, then some things get left out. In the case of Asia and perhaps because it is so remote--maybe if you were from the West Coast you wouldn't say that, but because it has been doing relatively well recently, up until the crisis, we say, ``All right, we can protect Africa, we can protect Latin America, but we didn't protect Asia.'' The consequence is that we don't have the monies to move in when we face the kind of crisis that we faced recently.

Mr. Frelinghuysen. Would you talk for a minute about what reports you received from your AID personnel on the ground in Indonesia and some of these other countries--Thailand, South Korea, and so forth? Would you comment on what you hear?

Mr. Atwood. Basically what we have known, that some out there would prefer perhaps to characterize as cultural differences. The fact of the matter is that they have had very weak banking supervision and standards. They have been overextended with respect to loans that the governments out there have guaranteed.

This obviously has collapsed all at once and the problem that everyone worries about now is the contagion problem, whether or not lack of confidence in one country will impact on that of another.

I do think Korea and Thailand have done extraordinarily well in responding and I think it is to some extent the strength of their democracy that has helped--Kim Dae Jung may be perfectly positioned to deal with labor unions, for example, given his past record, and he has just been elected and seems to be doing a good job. The Thai government has, as well.

We still are struggling with the Indonesian government and hope that they will implement the IMF agreement.

Mr. Frelinghuysen. I looked at your blue book on what we give to Indonesia. Would you just tell us for the record what our annual contribution is? It didn't seem to be in a multiprogram category.

Mr. Atwood. It has been reduced considerably.

Mr. Frelinghuysen. And while you are looking for that material, is it true that the Treasury Department is asking for \$5 million for a technical assistance program, a new program outside of AID? Are you aware of such a proposal and do you support it? This is a technical assistance program.

Mr. Atwood. In the fiscal '99 budget request I believe in the President's budget the Treasury Department has requested \$5 million to provide assistance to finance ministries who request that type of assistance.

And the number for Indonesia for fiscal '98 is \$43.8 million. And for the FY 1999 USAID request that you have before you, it is \$38.4 million.

international trade

Mr. Frelinghuysen. Shifting to another part of the world, to Africa, you are off to Africa Sunday and you said the theme of your trip is aid creates trade.

Mr. Atwood. That is my theme. The President may have broader themes.

Mr. Frelinghuysen. Well, just taking your theme----

Mr. Atwood. He wouldn't disagree, however, with that.

Mr. Frelinghuysen. I will just take your theme because you are in front of us, before the committee. When you say aid creates trade, the subtitles may be aid creates fair trade, free trade, honest trade, open markets, these types of programs and attitudes and ways of dealing.

Our battle in Congress these days is working towards doing something relative to the International Monetary Fund. Many members of Congress would like to see included in supporting IMF a lot of the provisions that I am somewhat alluding to here under your title, ``aid creates trade.''

I would like to know what your feelings are. I know the House and Senate are looking at a lot of provisions which sort of incorporate these goals and objectives. Some might call them conditions, provisions. There is a certification issue.

I was just wondering how you weigh in on what the House and Senate feel are very important aspects of international trade, most particularly our government's positions.

Mr. Atwood. I will respond to that by pointing out an irony in my own mind. That is, many developing countries really don't want to reform their economies and create economic systems that are open and transparent and with whom we can deal and create a level playing field for us, versus their normal relationships in some cases with former colonial partners, they see the IMF as a tool of the United States almost exclusively.

In their minds it is a very tough tool sometimes. We tell them that they can't keep spending so much money on patronage, that they have to raise more revenues so that they can pay for social sectors, that they have to stop taxing trade to the extent they do. There is a whole series of things the IMF does and it is always bitter medicine. The usual, at least behind-the-scenes, talk is this is just the United States exercising its influence over us.

The irony up here, of course, is that the worry is that the IMF somehow is in someone else's hands, that they are not operating in our interest.

Well, they very much are in the context of a global economy wherein we have to have a mechanism such as this to protect ourselves against the problems that now are created by the collapse of some of these economies in Asia.

So I find some of the concerns somewhat mystifying. I think any IMF agreement--you could take Indonesia and analyze it carefully--you could pick apart pieces of it and say, ``Well, this isn't the way I would proceed,' ' but frankly, I think that the IMF agreement is the only hope that Indonesia has to get out of the problem that they have and that is also in our interest.

It was brought home when I met with Chairman Callahan last week when he said a company in his district is impacted by not having a supplier in Indonesia able to deliver the goods. I think increasingly, districts around the country are being

faced with this.

So I think it is very dangerous to flirt with the possibility of not approving the IMF support that we have requested.

Mr. Frelinghuysen. I agree with you but my question really had to do with some of the conditions that both House and Senate members would like to see included, and I think if you could just briefly comment on that, then the good gentleman from Georgia has some comments.

Let me recognize Congressman Kingston.

Mr. Kingston. I know that when the Chairman gets interested in IMF and Indonesia and so forth, he has an intense knowledge of it, so it is a passion with him.

save the children

My question is, Mr. Atwood, I read with shock and disappointment the story about the Chicago Tribune sponsoring children through Save the Children and some other well respected international groups getting letters from 10-year-olds about how much their aid and support meant and how much it had changed their lives and how these kids, in reality, were already dead or some of them gone and lost to the winds or whatever.

You are not in an enforcement position but you run in the international circles. You have a lot of care and worry and spend a lot of your time and mission providing for children. What was your reaction to this and what are you hearing in the international community?

Mr. Atwood. I am not exactly sure what you are referring to and I am not sure on the basis of this note, either, what you are referring to.

Mr. Kingston. Well, I tell you what I could do. I could send you some information on it. It was a cover story in our Savannah Morning newspaper on Sunday, how basically these children and their photos and so forth were used for a marketing tool, not really to help children.

You know, these are people that we all respect and love and organizations that we have a lot of compassion for but may be near fraud on what they were doing.

Again I know you are not in enforcement but you run in the circles. If you had anything to say on it, I would be interested in your comments.

Mr. Atwood. It is the worse kind of abuse. A lot of NGOs in this country who are basically humanitarian NGOs, 99 percent of them are just what they say they are and truth in packaging. If you make a contribution to them, you are making a contribution to children or to people who need that help.

But there is that 1 percent who will take advantage of the goodwill of the American people and appeal to you with wonderful pictures of children in need, and the American people will respond to that. It has been seen time and time again. And I think those people ought to be put away and someone should throw the key away. That is just a horrible abuse of advertising, if you will.

Mr. Kingston. One of the sad parts about the article in terms of where do we go from here, it said that there is really

not much regulation or enforcement and it did not even say who should be doing something about it. Should Congress do it? Is this mail order fraud? I am not really sure where to go on it.

Mr. Atwood. It is an interesting thought. The problem is, of course, they are exploiting situations outside our borders and usually outside our law enforcement capacity.

Mr. Kingston. I appreciate it and if there is anything that you come up with along the way, we would love to hear from you on it.

Mr. Atwood. Great, okay.

Mr. Frelinghuysen. Thank you, Mr. Kingston.

Administrator Atwood, thank you very much for your testimony this morning. There will be a number of questions that will come to you as a result of this hearing. We would appreciate your prompt reply.

We stand adjourned. Thank you very much.

Mr. Atwood. Thank you, Mr. Frelinghuysen.

[Questions and answers for the record follow:]

Question for the Record Submitted by Chairman Callahan

bosnia

Question. Two years ago I led a Congressional Delegation to Bosnia to review the prospects for peace in the nation, and to determine whether we should support an economic reconstruction effort.

In the past two years, I have met my commitment to the President, and more. Not only have we appropriated every penny of the \$600 million for economic reconstruction, we've provided funding for police training, assistance to refugees, contributions for elections, and contributions to the war crimes tribunal. From 1995 through 1998, the Administration has received approximately \$1.1 billion from the Foreign Operations Subcommittee for all aspects of the Dayton Peace Accords.

For 1999, you are asking for an additional \$225 million for Bosnia, including \$200 million for economic reconstruction, despite earlier assurances that \$600 million would be our total commitment.

a. Will other nations, especially European nations, be making additional contributions as well? How much has been pledged by these nations for 1999?

Answer. Presently, the European states, like the U.S., are undergoing their own budget processes. But when the issue of future funding levels for Bosnia has been raised with officials of the European Union and a number of the significant European bilateral donors, they indicate that their intentions are similar to ours: to maintain 1999 levels of assistance for Bosnia at roughly 1998 levels. The EU has expressed its long-term commitment to Bosnia.

The United States, with its combined 1996-97 commitments of \$469.3 million, was the third largest donor after the European Commission's \$649.9 million and the World Bank's \$517.6 million. As a group, European donors committed 49.9% of the committed funds and the United States committed 15.2%.

Question. What is the ``exit strategy'' for the phase-out of our economic reconstruction program, and when will this termination occur?

Answer. Within two years, USAID expects that other donors will assume responsibility for remaining infrastructure repair. However, USAID anticipates continued work in Bosnia for ourselves and our partners to foster the emergence of a private sector; to develop joint institutions needed for inter-entity cooperation; to continue technical

assistance to further needed economic reforms; to create a conducive legal/regulatory environment for business and investment; and to strengthen democratic institutions and principles. These are the same objectives as in other countries in the SEED program. We and other donors have made it clear to both Federation Republika Srpska leaders that donor engagement and generosity is not indefinite and that further assistance depends on their commitment to real economic reform and democratic progress, including human rights.

usaid staffing

Question. According to information received by the Committee, at the end of fiscal year 1997, USAID had a total of 6,933 staff; by the end of this fiscal year, you estimate you will have 7,464 staff; the fiscal year 1999 budget assumes a staffing level of 7,425. That would be a seven percent increase over two years.

Even if you exclude foreign nationals and contract staff, U.S. direct-hires would increase from 2,218 at the end of fiscal year 1997 to 2,242 at the end of 1999.

Why are your staffing levels increasing this fiscal year and in 1999 over 1997 levels? Why is USAID increasing staff when you implemented a Reduction-in-Force in 1996 of almost 200 positions in order to adjust to lower staff levels for the future?

Answer. Let me answer the question relating to U.S. direct hire first. Yes, we plan a slight increase in our FY1999 U.S. direct hire workforce levels, 24 employees or about a 1 percent increase, over the end-of-year FY 1997 levels. Even with this slight increase, which is primarily for the International Development Intern (IDI) program, the estimate for U.S. direct hire levels by the end of FY 1999 is still 120 below the actual on-board level at the end of FY 1996--post RIF.

The increase in other staffing categories is primarily related to program funded staff, 450 of the total increase of 468. There are legitimate needs for program-funded staff to help us deliver assistance, to provide state-of-the-art expertise we need in areas like AIDS, global climate change, and financial markets. It should also be noted that the end of FY 1997 levels are actual people on-board, and the FY 1998 and FY 1999 levels are projections, which always exceed ``actuals''. Nonetheless, I do find the sharply increased projected levels of concern. Therefore, will be asking each regional bureau, in coordination with the Management Bureau, to review the issue of expanded program-funded staff as we review each mission program over the next four months with a view to eliminate those which are not considered essential to the Agency in terms of delivering results.

reagan building security

Question. The Summary Report of IG/SEC Activities (4/1/97--9/30/97) of the USAID Inspector General notes on page 10 that most of the Reagan Building's ``security features have yet to be completed.'' The report then lists 7 security problems, including vehicle barriers, shatter resistant window film, the access control system, guards, intelligence sharing and security training. Please provide a status report on each problem identified in the report, and plans USAID has to address these problems if they had yet to be resolved at this point. Please indicate whether the USAID Inspector General agrees that these problems have been resolved, if USAID believes they have been resolved.

Answer. The status of the seven security problems listed in the Summary Report of IG/SEC Activities (4/1/97--9/30/97) of the USAID Inspector General is as follows:

(1) Vehicle barriers: This matter is best answered by the General Services Administration (GSA); however the following information can be

provided: hydraulic bollards have been installed in two of the three building vehicle entrance/exit ramps. Installation in the third entrance/exit ramp is currently underway. The Federal Protective Service (FPS) of GSA will train the guard force on the operation of the bollards after all three sets are tested and fully operational. The projected operational date for the bollards is late spring, 1998. Entrance ramp guards currently perform a cursory inspection of vehicles belonging to the public by using Berringer devices to detect explosive residue.

(2) Shatter resistant window film: A USAID funded window hazard assessment study recommended application of shatter resistant window film in the building. GSA has given USAID authorization to proceed with having protective window film applied to exterior building windows adjacent to USAID-occupied space. Requests for price quotations have been sent out by USAID and one vendor has replied to-date (4/3/98). USAID plans to award a contract and have the film installed by the end of FY 1998.

(3) Access control system--GSA portion of the building: This matter is best answered by GSA. From the USAID perspective, there appears to be virtually no change in status on this item, i.e., the building access control systems are not in operation. Members of the public have unrestricted access to the garage as well as to the government office space in the basement levels of the building.

(4) Access control system--USAID portion of the building: Over 95% of the system is installed. Acceptance testing by USAID has been refused as of 4/3/98 due to frequent system-wide failures and unexplained shutdowns. There continue to be problems with the turnstiles at the main USAID entrances. A number of contractor companies continue to require entry into the USAID-occupied portion of the building to complete construction or make repairs.

(5) Guards: FPS identified July 1, 1998, as the start date for the permanent guard contract. Guards provided by the temporary guard contractor will remain until that time.

(6) Intelligence sharing: Beginning March 30, 1998, FPS began providing USAID and other federal tenants reports of incidents occurring in the building. Intelligence and threat-related information has not been made available.

(7) Security training: There has been no change in the status of this item. FPS has not advised USAID of any plans to provide the promised briefings in the areas of crime prevention, handling bomb threats, recognizing suspicious packages, and anti-terrorism.

USAID is working with GSA to remedy and bring closure to the above noted problem areas.

The USAID Inspector General agrees with the assessment of the problems as stated by USAID.

usaaid inspector general on usaaid management

Question. In December of last year the USAID Inspector General responded to a request from the Majority Leader, Mr. Armey, for information on the most serious management problems facing the Agency for International Development. The Inspector General responded with a list of ten significant problems for USAID management, all involving; financial management; information resources management; human resources capabilities; and program management. For the record, could you respond to each of the ten issues raised by the Inspector General; indicate whether these problems were present at the beginning of 1993; provide information on steps you have taken since that time to deal with these problems; and provide information on how you intend to resolve these

problems in the future, including a schedule for ending each problem and, for each, the milestones you intend to reach as the agency works to resolve them.

Answer. Four of the ten management problems identified by the Inspector General relate to deficiencies in USAID's financial management systems--the primary accounting system, data reconciliations, accounts receivable and the direct loan program. USAID has identified the lack of effective, integrated financial management systems as a material weakness under the Federal Managers' Financial Integrity Act (FMFIA) since 1988. A number of actions have been taken since that time to address this deficiency, including the development of the Worldwide Accounting and Control System (AWACS). An independent verification and validation (IV&V) of USAID's New Management System (NMS) was recently conducted by IBM and Coopers & Lybrand under the oversight of GSA's Federal Systems Integration and Management (FEDSIM) Center. AWACS, a component of NMS, was evaluated as a part of this process.

The IV&V confirmed many issues identified by the Inspector General and recommended the replacement of AWACS with a commercial off-the-shelf (COTS) system. In consultation with OMB, USAID has concluded that there is substantial cost, schedule and organizational risk in trying to implement a COTS accounting system by October 1, 1999. We need to lower our risks and examine alternatives that may also include longer range plans for using a combination of outsourcing, cross-servicing and COTS packages to meet the financial management requirements. We have already decided to outsource the loan servicing function. A Request for Proposals (RFP) has been issued and we expect to have a contract operation in place by the end of the fiscal year. Coopers & Lybrand will also assist us with financial management business process improvement, requirements analysis, and an investment analysis on other possible options for out-sourcing, cross-servicing and COTS solutions. This work commenced in mid-April and will be completed by October 1998. USAID will select a prime contractor with substantial software development experience to implement the new accounting system and modify other components of NMS. Once the Coopers & Lybrand work is completed and a prime contractor selected, we will be in a better position to provide more detailed information on milestones and timeframes for resolving the deficiency.

The lack of comprehensive and fully documented financial management policies and procedures has been identified as a material weakness in USAID's FMFIA report since FY 1993. Financial management policies formerly contained in a USAID handbook must be rewritten as a part of the Agency's Automated Directives System (ADS). This has been a slow process, partially due to the problems experienced in implementing an integrated financial management system. While we are completing chapters for the ADS, we have established a formal means of communicating financial management guidance. We expect that this deficiency will be fully corrected in FY 1999.

The reporting and resource management capabilities of NMS were identified as material weaknesses for the Agency in FY 1997. As a follow-on to recommendations from the IV&V, USAID will also perform an investment analysis on the proposed renovations for the remaining components of NMS (Operations, Budget, Acquisition and Assistance) to determine if the cost to repair is less than the cost of replacing components with available COTS packages where they exist. Timeframes for correcting the deficiencies can be developed when this work is completed.

The lack of effective information resources management (IRM) processes and the overall computer security program were also identified as material weaknesses in FY 1997. USAID has taken a number of actions to address these deficiencies. A new Director of the Office of Information Resources Management was appointed and is focusing exclusively on managing the Agency's information resources activities. In accordance with the Clinger-Cohen Act, we have also established a Capital Investment Review Board (CIRB) to provide broad management oversight for investments in information technology. We recently contracted with a consulting firm to analyze existing capital investment review and management processes and to recommend a process that meets the requirements of the Clinger-Cohen Act. The contractor has completed a description of the current process and identified gaps between the current investment review process and that required by legislation. The report also provided recommendations for improvements in the five key investment areas--strategic planning, systems, project planning and control, organization and process. The contractor is scheduled to complete a revised information technology investment process in May 1998.

A senior manager was also appointed to implement an effective computer security program.

An information systems security program plan has been developed and is now being reviewed. The plan outlines the program elements and resources required to implement an effective program. We expect to fully implement the plan and have a comprehensive computer security program in place by FY 2000.

The Inspector General expressed concern that USAID has lowered the level of in-house technical expertise to a point that raises serious questions as to whether we have the proper mix of technical skills necessary to manage/monitor the development assistance programs. The cut in technical staff since the beginning of FY 1993 has not been disproportionate to overall staff cuts. The Foreign Service (FS) workforce overall has reduced by over 33 percent since the beginning of FY 1993 with an almost equal reduction in FS technical staff. Over the same period, the Civil Service overall has reduced by more than 27 percent, with a reduction in technical staff of just under 18 percent. (All numbers exclude the Office of the Inspector General.)

At the beginning of FY 1993, the technical staff represented nearly 40 percent of the FS and 10 percent of the Civil Service workforce. As of March 31, 1998, technical staff continues to represent 40 percent and 10 percent of the FS and Civil Service workforce, respectively. Of the 27 International Development Interns (IDIs) on board as of March 1998, 15 (or 55.5 percent) will graduate into the technical specialties. In addition, a number of non-direct mechanisms for acquiring technical expertise are used to complement the direct-hire expertise and to maximize flexibility.

We will launch a study in April 1998 to define the technical staffing needs and functions for the entire workforce and propose optimal distribution by sector and among missions and bureaus in Washington.

The Inspector General also expressed concern that USAID's program mandate is still too broad to manage with its existing financial and human resources. Every year that we go through a budget cycle, as we struggle to match directives, earmarks and priorities with need and resource levels, we are reminded that the expectations others have for us are, indeed, broad and multi-faceted. There is nothing new about this problem; it has been documented in several studies, most recently

the Wharton Task Force Report of 1993. However, the environment in which we can address it has changed for the better, we believe, as a result of the Government Performance and Results Act (GPRA).

Partly in response to GPRA and partly in response to the end of the Cold War, the Secretary of State, in cooperation with the heads of other U.S. international affairs agencies, including USAID, has acted to more clearly and precisely define U.S. national interests at stake in the world and strategies through which the U.S. expects to pursue its national interests. These are laid out in the U.S. Strategic Plan for International Affairs.

In response to these same factors, USAID has also prepared a longer-term strategic plan which identifies those key U.S. national interests to which USAID contributes and the performance goals to which it expects to contribute over a ten-year period. USAID's Strategic Plan is directly linked to the U.S. Strategic Plan for International Affairs. This will give us a more solid base for discussions with Congress about whether USAID's mandate is too broad.

We believe there are broad areas of agreement between Congress and the Administration on what we should be accomplishing through our sustainable development resources, including those provided through the Support for East European Democracy (SEED) Act and the FREEDOM Support Act, and that portion of economic support funds USAID administers directly. We fully expect our continuing discussions with Members of Congress and Congressional Staff will add to our areas of agreement and, thereby, narrow USAID's mandate to initiatives linked to critical U.S. national interests.

We are concerned, however, that our efforts to manage for results are being confused with the ``breadth'' of our mandate. For example, it has been said that the indicators we use to manage at the mission level number in the hundreds. This is true, because our managers, at this level, need this detail to make appropriate implementation decisions. We do not, however, aggregate all of this information at the Agency level. At the Agency level, we will be using approximately 35 indicators to report performance. We do not believe this number is excessive.

african initiatives

Question. The 1999 budget includes a number of initiatives for Sub-Saharan Africa, including:

- \$30 million for a trade and investment initiative for Africa;
- \$25 million for an Africa great lakes initiative;
- \$2 million for a South Africa Development Community Initiative;
- \$21 million for a food security initiative;
- \$26 million for an education initiative; and

\$35 million for the Treasury Department to fully forgive debt owed by African nations to U.S. government agencies, including loans made by USAID.

You add these initiatives up and you reach \$139 million--and we may have missed a few in our initial review of your budget request. While some of these are to be funded from within base levels, \$107 million represents an increase above last year's level.

What is the relationship between these requests? What are they designed to achieve? How are they different from on-going or past activities?

Answer. All of these initiatives emerge from the changing development reality in Africa, what some have called the ``African Renaissance,'' and the new partnership between the United States and Africa. Development assistance for the Food Security Initiative (\$21

million) and the Education Initiative (\$26 million) falls within base levels. Only the \$30 million in development assistance for the Trade and Investment Initiative is above the base level and represents an increase over last year's request. Economic Support Funds for the South Africa Development Community Initiative (\$2 million), the Great Lakes Initiative (\$25 million) and the Education Initiative (\$10 million) as well as \$35 million for the Treasury Department for debt forgiveness also represent an increase over last year, bringing the total increase over last year to \$102 million.

These initiatives center on two of the Administration's major foreign policy goals for Africa--bringing Africa into the global economy and reducing the incidence of violence. Four of the initiatives mentioned--trade and investment, food security, SADC and debt relief--are connected to the President's Partnership for Growth and Opportunity launched in 1997. Opening American markets to African exports and creating a new Forum for high level discussion of these issues between the United States and reforming states of Africa, are the major elements of this new partnership.

The Education for Development and Democracy Initiative is built on the recognition that for the fragile political and economic transformations taking place in Africa to be sustained, much more attention has to be paid to African education. Finally, the Africa Great Lakes Initiative is designed to create some of the conditions for a return to the rule of law in the area and to end the cycle of bloodshed which the President spoke so eloquently about in Rwanda.

For the most part, these initiatives allow the United States to promote these objectives more fully by expending more resources in a concerted way. In the area of food security, for example, USAID intends to expand its programs in agricultural technology development and agricultural marketing in five countries. The initiative resources enable us to increase our level of effort. Similarly, in the case of the education initiative, we will be building on past successes, particularly in the area of university partnerships, but we will be trying some new ideas as well. In the case of the Africa Great Lakes Initiative we will be doing something completely new in this part of Africa, although we have had experience in rule of law programs in other parts of the world.

child survival account

Question. This year the Administration finally included a child survival account in the President's request. However, the budget for child survival and diseases would be cut by \$47 million. Although the bulk of this reduction is in disease programs, HIV/AIDS funding is exempt from the cut.

Your budget request indicates the reason for the cut is ``to provide funds to broader activities such as those which provide economic opportunities for families to better support themselves and their children as they move from childhood into . . . adulthood.''

In other words, did you fund Administration priorities at the expense of child survival programs?

Funding for most of the major sectors of AID's activities would be increased in 1999 over 1998; family planning would increase by \$32 million; environment programs would increase by \$46 million; economic growth activities would increase by \$38 million. On the other hand, child survival and disease programs would decline by \$47 million. Aren't child survival and disease programs at least as important as the other programs I've mentioned?

Answer. I fully agree that child survival and disease programs are

extremely important. Our request for FY 1999 is not meant to signal a reduction in the importance we attach to these programs. The very fact that we have requested a separate account, including a separate category for the new disease initiative, demonstrates the importance we give to these programs and activities.

Our approach is based on the realization that work to reduce the threat of infectious diseases and to children's survival is integrally linked to, and must be supported by the Agency's efforts in other areas.

Social and economic conditions such as poverty, malnutrition, lack of education, poor sanitation, overcrowding, environmental degradation and rapid population growth all allow infectious diseases to flourish and spread and have a very detrimental effect on the lives of children. Our efforts in the area of child survival and disease are made all the more effective when these other issues are adequately addressed. To this end, USAID's FY 1999 request increases funding for a number of sectors that we believe have in the past been under-funded. They address some of the underlying social and economic conditions that impact on health and disease.

The funding choices we have made have been very difficult. But, they do not in any way reflect a decision on the part of USAID that child survival and disease activities and programs are of secondary importance. We believe the investments we make in these other areas are critical complements to USAID's work to address infectious diseases and improve child survival.

usaid missions in vietnam and pakistan

Question. I understand the Administration and USAID are looking at the possibility of opening USAID missions in Vietnam and Pakistan.

a. Is that true?

b. If so, do you intend that the funds currently allocated through USAID for East Asia will be reallocated to pay for these assistance programs, or will funds for Latin America and Africa be cut?

c. Without expressing any opinion about the desirability of providing assistance to these particular countries, can we open new missions in the current budget environment?

Answer. USAID is not looking into the possibility of opening a USAID mission in Pakistan. However, USAID does assist U.S. non-governmental organizations (NGOs) working in Pakistan with direct grants from USAID Washington. These grants are supporting NGO activities in Pakistan's social sector (e.g. maternal and child health, literacy and basic education) and will be continued this year with ESF resources.

USAID is looking at the possibility of opening a small representative office (not a full mission) in Vietnam in FY 1999. FY 1998 funding for the Vietnam program consists primarily of ongoing NGO projects in prosthetics, orthotics, rehabilitation, orphans and displaced children. We are also continuing the advisory activity in commercial law and trade reform authorized by the Congress last year, and we are including Vietnam in an Asian regional HIV/AIDS activity. These activities may be expanded modestly as funding and management capacity permit.

FY 1999 management arrangements, funding and programming for Vietnam will depend upon overall resource availabilities and priorities. Our FY 1999 request does not identify funding specifically for Vietnam. We would, of course, expect to consult with the Congress on any changes in our Vietnam activities in FY 1999.

usaid accounting system changes

Question. IBM recently completed a study that indicates there are extremely serious problems with the \$100 million computerized New Management System of AID. This Subcommittee and the AID Inspector General have been raising concerns about the system for several years.

The accounting subsystem, which is the most important part of the financial controls of the agency, does not work. As a result, we cannot obtain accurate information on assistance pipelines and on other financial data.

It is difficult to defend the operations of the agency when we do not have accurate financial information about the taxpayer funds that are provided to AID.

What management changes have you made or will you make, to ensure that AID can obtain an accurate accounting system?

Answer. USAID has designated an Acting Chief Information Officer (CIO) and an Acting Chief Financial Officer (CFO) to provide essential leadership and oversight to the NMS program and implementation of reliable accounting system. The CIO is applying industry best practices by establishing integrated product teams working with a prime contractor under a performance-based contract to oversee the work required to fix the NMS and implement a quality financial management system. The overarching integrated product team is headed up by the Acting CIO with the Acting CFO and other senior managers overseeing the efforts of NMS program teams to assure coordination and accountability for delivery of quality products within cost and on schedule. USAID recognized that it does not have the capacity to do software development. USAID will select a prime contractor with substantial software development experience and mature processes to bring industry best practices to implement a commercial off-the-shelf accounting system and examine cross-servicing and out-sourcing options, as well as fix other components of NMS. USAID management is enhancing its organizational capability to be a first-class software acquisition organization focusing on performance based contracting, requirements management, project monitoring, and contractor evaluation. The NMS full-time project manager will monitor the work of the prime contractor and work with an owners group, composed of USAID employees knowledgeable on the requirements of each of the system components, to develop requirements and evaluate the quality of the products delivered. Formally chartered integrated product teams with clear performance goals will partner with the prime contractor to plan, implement, monitor and evaluate for program success. This management approach will address the deficiencies of past management practices.

Question. What management changes have you made or will you make, to ensure that the agency does not make the same management mistakes again?

Answer. USAID management has recognized the critical role that regular independent assessments must play in its software quality assurance plan to insure that both management and the IG have access to timely and accurate information about software development problems early on in the requirements analysis, planning and design phase. USAID has developed a software acquisition strategy that includes a number of best practices to enhance management control over the NMS program. The prime contractor will have highly qualified program management staff partnered with USAID NMS program management staff to provide accurate and timely reporting to USAID senior management on the progress, issues and risks associated with the NMS program. Greater attention will be placed on requirements analysis and planning to identify and correct problems early in the project life cycle when they are relatively easy

to address. The prime contractor will be expected to maintain a rigorous software quality assurance plan. Through regular independent assessments of contractor performance combined with more rigorous contract monitoring and evaluation, USAID will also identify deficiencies early and place the responsibility on the contractor to address them. This will provide USAID management with more reliable and predictable data on product quality, costs and schedules.

Question. Why should the Subcommittee consider funding for the new initiatives in the President's budget when we cannot account for how funds are currently being used? Isn't your first priority the correction of your financial management system?

Answer. Achieving Year 2000 compliance in mission-critical information systems and implementing an integrated accounting system that is compliant with federal financial management requirements are among the highest priorities within the Agency. The resources needed to successfully complete these efforts have been allocated. USAID will continue to rely on its multiple accounting systems, making improvements as needed to strengthen management controls and deliver more reliable financial reports. The Agency has sufficient capacity to manage these new initiatives while making incremental improvements in its accounting systems to better track how funding is being used.

Question. In a Semiannual Report to Congress (April 1, 1997-September 30, 1997), the Inspector General reported that "the failure to follow accepted systems development practices [for the New Management System] was due to underlying organizational and management deficiencies that allowed substandard information resources management practices to continue despite high risks of adverse consequences". Do you agree? What steps has AID taken to rectify these problems?

Answer. USAID did not have the expertise to manage a software development project of this complexity. As a result, it did not have the essential project management information to inform senior managers regularly of the risk, quality problems, cost overruns and schedule slippages that were occurring. Senior managers incorrectly believed that incremental improvements could be made and were being made to remedy these problems and bring the system to full functionality.

The IG recognized key indicators of software problems but also lacked sufficiently detailed information on the full extent of the problems to inform senior managers about the steps needed to correct them. At the time the Semiannual Report to Congress was made, our mutual concerns did indicate that an independent assessment was needed to examine the software, organizational and management deficiencies.

The independent assessment was delivered at the end of January 1998, and USAID management and the IG for the most part agree on the deficiencies and the next steps the Agency must take. This is reflected in the IG's Audit Report on the New Management System Status dated March 31, 1998. The IG highlights areas that still need further analysis, which the Agency will address once it has selected a prime contractor with the requisite technical skills to perform that analysis.

unicef assistance to north korea

Question. The Agency for International Development has \$190 million to respond with humanitarian and other assistance when disasters strike around the world. During the current year, the Agency provided \$5 million for a UNICEF program in North Korea.

I don't want to debate whether we should be providing North Korea assistance or not. There are some in Congress who argue that any money going to that country indirectly subsidizes the current regime, which

is probably the most repressive in the world.

However, in providing the assistance to North Korea we want to ensure that it is going directly for humanitarian assistance, and not being redirected to the government or for any other activity.

I understand the UNICEF, with AID's concurrence, agreed to North Korean demands that no Americans be allowed to monitor these funds beyond a two week period at the beginning of the program.

Is that true? Why would we agree to something like this, when we threatened to bomb Saddam Hussein when he attempted to keep American inspectors out of Iraq?

Answer. U.S. agreements with UNICEF and North Korea provide for U.S. citizens to monitor the program over extended periods. Individual U.S. monitors are limited to two week periods but since the monitoring visits are co-ordinated with an anticipated three separate deliveries of medical supplies for mothers and children, there will be considerable U.S. monitoring coverage during the implementation of the grant. In addition, international monitors approved by the U.S. will monitor the UNICEF program. Together, while not representing the U.S.'s preferred arrangement, we believe this monitoring agreement will ensure that our aid reaches the intended recipients. North Korea is not Iraq and we are dealing with monitoring the flow of humanitarian aid to destitute people not the existence of lethal weapons of mass destruction.

The United States has negotiated long and hard with the North Koreans to ensure adequate monitoring of this grant. The North Koreans were reluctant to issue visas for U.S. monitors without a bilateral assistance agreement. The United States was unwilling to pursue such an agreement at this time. In addition to our insistence that American monitoring be allowed, we secured special monitoring arrangements for this grant, requesting that UNICEF negotiate additional coverage with the North Koreans. We could have relied simply on UNICEF's own capacity to handle the monitoring. UNICEF is a very capable organization, there is a system in place to distribute supplies to hospitals and pediatric centers, and the commodities, such as therapeutic foods for severely malnourished children, are not likely to be diverted to other uses.

However, knowing that Congress was concerned about monitoring, we wanted to find a way to ensure continued presence for representatives of U.S. private voluntary organizations in North Korea. We, therefore, asked UNICEF to negotiate additional coverage, which they succeeded in doing. International staff from the U.S. PVOs have been assigned directly to UNICEF in North Korea for the duration of the current UNICEF appeal. In addition, U.S. staff from these same PVOs will also monitor the actual distribution of U.S. medicines and other commodities. These U.S. citizens are currently expected to be in North Korea on three separate visits, each of which will last approximately two weeks.

Unlike in Iraq, where we seek compliance with arrangements on weapons, in North Korea we are attempting to assist people in desperate need with U.S. humanitarian assistance. The arrangements we have agreed to are adequate to the task of monitoring this aid. We are confident that the people who are delivering this assistance--UNICEF and the U.S. PVOs with the support from us that they fully deserve--will ensure that the program implementation and monitoring are effective.

usaid ig draft audit report on usaid pipeline

Question. The Inspector General of USAID has completed a draft report on the results of his audit of USAID's unliquidated obligations, or pipeline. He has concluded that \$495 million of USAID funds in the

pipeline as of the end of fiscal year 1996 was in excess of current program requirements: (a) \$264.6 million was considered excess because it was not expected to be needed within a reasonable future period, as defined by forward funding guidelines; and (b) \$148.9 million was unspent after all required goods and services were delivered and activities had been completed. Although this is a draft report, and not final, have you had a chance to review the Inspector General's conclusions? Do you agree with his findings? For the record, please provide your analysis of USAID's pipeline through the first quarter of fiscal year 1998 for all accounts and activities, and indicate what you believe to be obligations in excess of program needs.

Answer. USAID agrees that some portion of the unliquidated obligations as of September 30, 1996, included funding which extended beyond the forward funding guidelines or was unspent after activities had been completed. In the absence of readily available information on the actual status of the obligations at that point in time, USAID is unable to express an opinion on the validity of the IG's statistical projection of \$495 million, or 5% of the total unliquidated obligations.

We do not conclude that amounts that may have exceeded forward funding guidelines were in excess of current requirements or no longer needed. The forward funding guidelines are parameters which may be exceeded where justified or reasonable. In most instances, the funding will be needed for planned program activities. While at any point in time there may be some amount of funding that exceeds the forward funding guidelines, adjustments will generally be made in the course of annual program reviews. Programs with relatively large pipelines receive less funding in a fiscal year than those with smaller pipelines, resulting in effective portfolio management. As indicated in the IG report, the balances for many of the obligations identified in the audit had been reduced to amounts that were no longer considered excessive when the audits were conducted.

The IG projected that approximately 1.5% of the unliquidated obligations remained after activities were completed. Some level of funding must be retained after activities have ended in order to complete the close-out process. The close-out process is the Agency's method for ensuring that final amounts claimed are appropriate given certain possible contingencies, such as the impact of audited final indirect cost rates, questioned direct costs resulting from external audit exceptions, and other amended claims for mistakes in billings. Some degree of close-out backlog will occur due to delays in receiving final vouchers from vendors, awaiting final payment confirmation, and receipt of audited final indirect cost rates and audit reports.

USAID agrees with the IG that clarified procedures related to forward funding guidelines and more timely action on contract close-out would lead to more efficient resource management. A management study will be conducted to identify ways to improve the management of an obligation from award through the close-out process. Following the review, comprehensive policies and procedures will be developed to implement improvements.

USAID is unable to provide an analysis of the pipeline at this time because data, particularly for accruals and programs obligated in Washington, is not yet fully recorded. Such data may not be fully retrievable until the end of FY 1998. However, during the upcoming budget reviews to be conducted at the mission and program level, pipeline management will continue to be factored in before considering additional funding for any program. The soon to be published FY 1998

Statistical Annex to the Congressional Presentation will cover both estimated obligations and expenditures by activity for all Agency programs, albeit with some qualifications stated.

population: peru family planning program

Question. We have been informed that the Peruvian family planning program, to which USAID has provided funds in the past, may be involved in involuntary sterilization activities. The allegation is that doctors have been given quotas by the Health Ministry, and that they pressure poor Peruvian women to be sterilized.

The interesting thing about the program is that it has occurred primarily among poor, illiterate women in rural areas; there have been very few vasectomies.

Although USAID has raised concerns about the program with the Peruvian government and has not directly funded government programs in the recent past, it has been involved in joint promotions of family planning activities in Peru. In the past, it has also provided training in voluntary sterilization techniques to the Peruvian health ministry.

What is the current status of Peru's family planning program, including allegations that involuntary sterilizations have occurred?

Answer. The Peruvian Ombudsman's Office has investigated complaints from nine women who were sterilized. It issued a report that reveals four problem areas:

1. A lack of guarantees to ensure unencumbered decision-making, including insufficient counseling prior to the operation; the absence of a waiting period between making the decision to have a tubal ligation and the actual operation; and the offer of food as an incentive to accept a tubal ligation.
2. Campaigns dedicated exclusively to tubal ligation and vasectomy.
3. Lack of follow-up after surgery.
4. Numerical targets regarding methods of family planning.

As was made public during the February 25 hearing of the Subcommittee on International Operations and Human Rights, the Government of Peru (GoP) recently announced a series of key procedural changes in its family planning program that are responsive to the aforementioned problems. These changes are in large part the result of USAID's negotiations with the GoP over the past 18 months. They are:

Every person requesting a tubal ligation or a vasectomy will undergo one counseling session on the full range of contraceptive choices and a second session on possible complications and the irreversible nature of surgical contraception, including pre-operative and post-operative care.

After the second counseling session for voluntary sterilization, a 72-hour waiting period will necessarily ensue before the operation can take place.

Tubal ligation and vasectomy will only be provided in hospitals and health centers that are certified as meeting standards for those types of operations.

The GoP will make clear to health workers that there are no provider targets for tubal ligation or vasectomy or any other method of family planning, nor any method-specific targets at the regional or local levels.

On March 6 and 19, 1998, the Peruvian Ministry of Health issued other communications that announced further measures to improve the quality of its program. Chief among them:

Potential clients of tubal ligation and vasectomy will be given a brochure that explains the operation and the risks involved.

A progressive process will be established to certify surgeons as

competent to performs these operations.

Regarding post-operative care, patients from areas that do not have easy access to health services must remain hospitalized for 24 hours.

Patients should make two follow-up visits to health services: one 3-7 days after the operation, and another 30 days after the operation.

When patients do not show up for post-operative visits, health workers should seek them out through home visits. USAID continues to monitor the implementation of these new procedures.

population: sterilization

Question. Due to the potential for abuse among poor women in particular, do you believe USAID should promote or provide sterilization through its family planning programs?

Answer. As the global leader in family planning, USAID needs to continue to support voluntary sterilization through its family planning programs. USAID is committed to providing a wide range of safe and effective contraceptive choices including voluntary sterilization. Voluntary female sterilization is an important part of method choice and is in great demand with more than 150 million users worldwide. Male sterilization is becoming increasingly popular in some countries. Currently, about 45 million couples worldwide rely on vasectomy for contraception. USAID supports the provision of this method as well.

Among currently married reproductive-age women in developing countries, over 50% report that they want no more children. For many of them, sterilization is an appropriate, effective and desired method of family planning. An estimated 16% of these women have already chosen sterilization and another 14% report that they want to use sterilization in the future. This 16% translates to 42% of all contraceptive users, making sterilization the single most widely used method of family planning in developing countries. Sterilization is also the most widely used contraceptive method in the United States, where 18% of all women use this method.

The underlying principles of USAID's family planning programs are voluntarism and informed choice. USAID's approach focuses quality in all aspects of service delivery. This includes the use of counselling and informed consent procedures and forms; specialized training in family planning methods; and strict monitoring and evaluation procedures to ensure compliance with USAID policy guidelines and contract provisions on informed consent and voluntary sterilization.

Voluntary sterilization is readily available to women who can afford it in the United States and in developing countries. Poor women should not be denied access to this method as a means to achieving and maintaining their desired family size and averting unwanted pregnancies and abortion. If USAID stopped supporting voluntary sterilization through its programs, hundreds of thousands of poor women would be denied access to the high quality services they want and need to attain their childbearing aspirations.

population: review of sterilization policies

Question. Is USAID aware of other countries in which the agency has provided family planning assistance that may have problems with involuntary sterilization? Has the agency reviewed the family planning policies and practices of each country in which it operates a family planning program to ensure that involuntary sterilization is not occurring?

Answer. In each country in which USAID provides family planning assistance, the field mission is in regular contact with government officials and NGOs implementing those activities directly supported by USAID. This regular monitoring by missions helps ensure that USAID

funding is used to provide as wide a choice of family planning methods as possible and that activities are in full compliance with USAID policy guidelines and contract provisions on informed consent and voluntary sterilization. In addition, regular independent audits are conducted of programs supported by U.S.-based cooperating agencies of USAID to determine compliance with these provisions.

USAID/W is in the process of reconfirming that USAID-funded activities involving voluntary sterilization fully respect principles of voluntarism and informed choice and are in compliance with the Agency's requirements. The overall policies and practices of countries in which we operate are also monitored by missions as well as by U.S. embassy officials responsible for human rights reporting. USAID/W is in the process of reminding all missions that if host government policies or activities conflict with USAID principles or policies, missions should work with host country partners to change these policies or activities as well as to distance USAID from them. USAID/W is also currently seeking to determine what countries if any have problems with the implementation of sterilization programs and the nature and extent of the problems.

support for small holder farming operations

Question. In House Report No. 105-176 the Appropriations Committee indicated support for including small holder farming operations among its other criteria for microenterprise lending programs. What is the status of this recommendation?

Answer. USAID's Microenterprise Development Policy Paper, which sets the guidelines for the Agency's work in the microenterprise field, defines Microenterprises as ``tiny, informally organized business activities other than crop production.'' While this definition does not include farm production, it does not, however, discriminate against farmers, as many farmers operate microenterprises as sidelines during the off-season. In fact, the most successful microfinance institutions do not attempt to restrict the uses of funds by borrowers. As a result, microloans can be and are channeled to crop production activities to the extent that they are for short periods of time.

The Agency is presently exploring direct linkages between microfinance and rural finance in its broad sense. We are looking at the provision of credit and savings services in rural areas through financially sustainable institutions which is a priority of the agency's microenterprise effort.

cooperatives and microenterprise programs

Question. What plans does AID have to better integrate cooperatives into its microenterprise programs?

Answer. Savings and loan cooperatives (commonly called ``credit unions'') have long been supported by USAID because (1) they are owned and capitalized by their members, and (2) they often target broad financial service delivery to low-income clients. In addition, the fact that they are permitted to capture and use member savings as their primary source of lending capital makes them less dependent upon donor capital or guarantee programs, and thus an excellent development investment. The World Council of Credits Union ranked in the top five recipients of USAID microenterprise funding in 1996.

We consider credit unions an extremely important mechanism for delivering financial services to microentrepreneurs and poor people in general. For this reason, USAID is supporting credit union movements in various countries in Africa, Asia and Latin America.

agriculture funding

Question. The strategic objective for broad-based economic growth

includes agriculture. How many missions, and which missions, have changed or are changing their plans to include agricultural programs as part of this strategic objective?

Answer. USAID missions in many of the Agency's recipient countries are by and large working in agriculturally-based economies. The missions have recognized over the years that successful programs in economic growth must include agriculture.

Our agricultural programs have declined in size with the reduction in overall resources in the early to mid 1990s. During this period Congressional priorities for child survival, diseases, and basic education programs have become major funding priorities within the overall Development Assistance account. At the same time there have been a number of Administration priorities for population and environmental programs, non-traditional export promotion, privatization, rural infrastructure, and market reform as well as joint interest between the Administration and Congress for increased funding of microenterprise programs. Despite this contraction of and increased competition for funds, any of our missions continue to have agriculture programs as a major priority.

However, USAID's agriculture programs can be greatly expanded only if additional funding becomes available for economic growth programs in general and agricultural programs more specifically.

In Africa, the Administration has recognized this problem, and the President's Africa Food Security Initiative (AFSI), announced in his recent speech in Uganda, will provide resources for USAID missions in five countries to add new agricultural activities or expand existing ones beginning this year. These countries are Uganda, Mali, Malawi, Mozambique, and Ethiopia. A higher resources level in AFSI would permit expansion of agricultural activities in other countries.

In Asia and the Near East, it is premature to anticipate what changes, if any, may occur. Many missions are involved in agriculture, including research, policy reform, enabling environments, tariffs, technical assistance, agro-business, and high-value cropping. As the Agency proceeds with preparation of its FY 2000 budget submission, we will be exploring in tandem with our field missions additional opportunities for involvement in this area.

The Latin America and Caribbean Bureau has seven economic growth strategic objectives that include agricultural programs. At this time, increased emphasis on agriculture in this region is being addressed through existing programs as opposed to new initiatives which would require additional economic growth allocations.

private and voluntary cooperation fy 1999 funding

Question. How much funding is assumed for the Office of Private and Voluntary Cooperation in fiscal year 1999, and how much of this will support cooperative programs?

Answer. USAID's budget submission for FY 1999 requests funding for the Office of Private and Voluntary Cooperation at a level of \$46,827,000 for the year. Of this amount, \$6 million is planned for cooperative programs.

credit unions

Question. Please provide the committee with an update on credit union programs in Eastern Europe and the New Independent States of the former Soviet Union.

Answer. USAID is currently funding five credit union development projects in Eastern Europe and one in the New Independent States through the World Council of Credit Unions (WOCCU). These six programs are in Latvia, Lithuania, Macedonia, Poland, Romania and Ukraine.

The first and most successful credit union program began in Poland in 1992. The program has achieved self-sustainability, with all the components of a fully operational system including appropriate legislation, successful credit unions, a national association, a central finance facility, audit and supervision within a self-regulatory system, computerization of operations, a training center and a credit union foundation that provides assistance to other movements in the region.

The WOCCU project in Latvia and Lithuania, which began in 1994, has also been successful, particularly in lobbying the adoption of amendments on credit union legislation, and in fostering the growth of credit unions by reducing the initial capitalization requirement to an acceptable level.

The WOCCU project in Romania, initiated in October 1995, has been successful in fostering the partnership with a Romanian association of savings and credit unions. The credit unions within this association have been converted to competitive, market-driven organizations. To date, 14 have been converted, with a total of 4,637 members.

The WOCCU project in Macedonia was initiated in October 1995, but has encountered some difficulties in securing the appropriate legislative base for credit union development. WOCCU believes these problems will be resolved within the coming months, and that credit union operations will restart this year.

The WOCCU project in Ukraine began in 1993 and focuses on the building of an effective financial infrastructure to provide savings and credit services. To date, WOCCU works with 60 institutional members and over 12,000 members in Ukraine. The project continues to focus on training of credit union leadership, computerization and institutionalizing better financial discipline.

georgia agriculture

Question. Please provide the Committee with an update on its agriculture and cooperatives programs in Georgia.

Answer. USAID is endeavoring to expand its activities in agriculture throughout the Caucasus region. Georgia, in particular, appears to have significant agricultural potential. The mission is currently supporting a private seed industry development activity, which is being implemented by ACDI/VOCA, concentrating on improving the genetic material and then commercializing production and marketing for potato, maize, sunflower and wheat seed. A new project, currently in the final design stages, would complement this activity by working to develop a network of private agricultural input dealers, using fertilizer supply as a catalyst. This new project would work in all three countries in the Caucasus region, with Georgia as the main country of emphasis.

There is no direct USAID support to agricultural cooperatives as such in Georgia. The USDA, through its commodity monetization activities, is providing some resources to support the provision of rural credit through rural cooperative banks in a program being administered by ACDI/VOCA.

renewable energy for african development

Question. In House Report No. 105-176 the Appropriations Committee indicated support for programs of the organization ``Renewable Energy for African Development'' (REFAD). What is the status of USAID efforts to continue support for REFAD? What plans does the Agency have for the remainder of this fiscal year and in fiscal year 1999?

Answer. Renewable Energy for African Development is a program of the U.S. Export Council for Renewable Energy (US/ECRE). USAID has had a

series of cooperative agreements with US/ECRE since 1990, and has been supporting REFAD under that agreement since REFAD was initiated in 1993. The current agreement with US/ECRE expires on April 30, 1998. Two factors may affect the potential of future cooperative agreements with US/ECRE: (1) USAID is currently reviewing documents submitted by US/ECRE to determine the allowability of approximately \$1 million in questioned costs by the Inspector General's Office; and (2) USAID has identified this agreement as one that should be competed in the future and not awarded on a sole-source basis.

tuberculosis control

Question. In House Report No. 105-176 the Appropriations Committee recommended funding for a tuberculosis control project in Latin America and Southeast Asia proposed by Gorgas Memorial Institute. Please provide an update on the status of this project, and on the funding levels proposed by AID for fiscal years 1998 and 1999.

Answer. USAID and members of the Gorgas Memorial Institute are finalizing designs for sustainable tuberculosis programs in developing countries which will build on the expertise and strengths of the academic institutions (Johns Hopkins University and the University of Alabama) affiliated with the Institute. The strategy will focus on the development of model centers of excellence which will function as regional resources for training of laboratory personnel, health care providers, and local experts as well as centers for operational research designed to identify innovative approaches to diagnosis, treatment, and control of the disease. The budget for these activities in 1998 will be two million dollars; proposed funding for 1999 is to be determined.

credit resources milestones

Question. On page 27 of the Congressional Presentation, AID indicates that it has agreed upon a series of milestones with the Office of Management and Budget to correct identified problems with the management of credit resources. a. What are these ``identified problems''? b. What are these milestones? c. Are current milestones being met? If not, why not?

Answer. The problems identified with the management of USAID's credit programs were primarily related to the accuracy and reliability of the budget and accounting data for the various credit programs as well as timeliness in the Agency's responses to central agencies' requests for credit data. In order to address these problems, USAID established a Credit Review Board (CRB) to advise the Agency Chief Financial Officer (CFO) on policies and procedures for the financing and financial management of the credit programs. The CRB is chaired by the CFO. Its membership consists of officials from the Office of the General Counsel, Bureau of Policy and Program Coordination, Office of Budget, the Regional Bureaus and a representative from the Global Bureau for each credit program. A representative of the Office of the Inspector General also participates as a non-voting advisory member.

The milestones which were agreed to with the Office of Management and Budget (OMB) cover the full range of credit management activities. Specifically, the areas covered are credit budgeting; credit management staffing and outsourcing; procedures manuals for the Micro and Small Enterprise Development Program and the Direct Loan collections and follow-up; responding to requests from Treasury, State and OMB for direct loan and guaranty loan information; additional credit management staff in the Global Bureau credit program offices; and changes in the non-sovereign risk assessment methodology.

At present, all necessary actions on the milestones have been or

are being taken. The only critical action which is somewhat behind the original schedule is the outsourcing of credit servicing functions. However, the Request for Proposals for these services was issued on March 9, 1998, and closes on April 20, 1998. We expect to finalize the selection and award the contract before the end of July 1998. Implementation of the contract will begin immediately afterwards.

development credit authority

Question. In the Congressional Presentation, the agency devotes less than a full page to a description of the proposed Development Credit Authority. Please provide additional details about this program, including: a. Whether AID expects to receive a certification from the Office of Management and Budget to allow for the obligation of funds during fiscal year 1998 using the authority provided in Public Law 105-118; b. whether financial statements for the existing loan portfolio of AID can meet the standards under section 205 of the Chief Financial Officers Act regarding agency accounting and financial management systems, the form and content requirements of OMB Bulletin No. 94-01, and the requirements of OMB Circular A-127 (Note: please provide an explanation of the standards and requirements in each case, and a description of why the agency cannot meet these standards); c. how the agency can manage this new program given its inability to account for existing grant and loan balances, and the lack of an adequate accounting system for the agency as a whole.

Answer. The most important point to underscore is that Development Credit Authority (DCA) is not a new ``program''. Rather, it is an alternative financing tool that will give the Agency greater flexibility and increased financial leverage in using market-rate loans and guarantees to promote its development priorities where they can be achieved with credit authority in lieu of grants, and where the risks can be reasonably estimated and managed. Under DCA, borrowers can be sovereign nations, private enterprises, or joint public/private ventures. To comply with OMB Circular A-129 (which applies to credit funded activities), we expect that the majority of DCA-financed activities will be non-sovereign.

The Agency has established: (i) a DCA Coordinating Committee, consisting of five senior members of the Agency, which now regularly reports to the Deputy Administrator on progress in implementing DCA, and (ii) a DCA technical working group with representatives from all regional bureaus and operating units involved in credit. The technical working group is now actively involved in developing potential DCA transactions, with a particular focus on the Russian Far East, Poland and Latin America at this early stage. Many of these projects will likely involve partial guarantees of loans extended by local intermediate financial institutions to targeted sectors. For example, in the Russian Far East, we are working to involve local and U.S. banks in lending activities targeting energy, telecommunications and infrastructure.

USAID is working closely with OMB to establish a system capable of effectively managing credit programs, which the statute requires in order to satisfy the requirements for certification. We are meeting each milestone as set out by our agreed upon action plan. We are making every effort to ensure that the progress to date continues and results in a fully compliant established credit management system by the end of this year. We will keep the Committee informed in a timely manner on our progress with respect to certification.

The Government Management and Reform Act of 1994 required that USAID prepare consolidated fiscal year end financial statements and

that these statements be audited. USAID's credit programs are included in the consolidated financial statements, and, therefore, separate audited financial statements for the individual credit programs are no longer issued. The consolidated financial statements are contained in the USAID Office of the Inspector General's Report No. 0-000-98-001-F, ``Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Years 1996 and 1997'', dated March 2, 1998.

Section 205 of the Chief Financial Officers Act establishes the Chief Financial Officer (CFO) in several departments and agencies, including USAID. The Act specifies among other things that the CFO will develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls. This system is to comply with applicable accounting principals and standards, including policies and requirements prescribed by the Director of the Office of Management and Budget (OMB). The Director of OMB has issued OMB Circular A-127, which prescribes the policies and standards to be followed in developing, operating, evaluating, and reporting on financial management systems. OMB also issued OMB Bulletin No. 94-01, which specifies the form and content of Executive Branch departments' and agencies' financial statements requirements.

The Agency recognizes that its accounting and financial management systems are not in full compliance with the applicable standards and regulations (including the requirement for an integrated financial management system) and that there are significant material weaknesses in the core accounting system. At this time we are in the middle of a multi-year effort to improve our financial management processes and systems that will correct these material weaknesses. We believe that, through the use of legacy (pre-NMS) systems and our enhanced financial management team, our FY 97 financial statements reflect the financial condition of the Agency and that the core financial management systems maintain adequate controls over all funds entrusted to the Agency.

The fact that we have not been able to obtain a clean opinion on our financial statements should not impair the Agency's ability to manage DCA. Most of USAID's credit programs' financial management problems have related to the back-end processes (i.e., loan servicing and financial reporting) and not to the front-end process of extending credit and accounting for the utilization of appropriated funds in accordance with the Credit Reform Act. We believe that the outsourcing of certain loan servicing, accounting and financial reporting functions will address the back-end financial management issues which could have negatively impacted DCA and that we will be able to maintain proper accounting control over DCA funds.

[Pages 275 - 276--The official Committee record contains additional material here.]

year 2000 software

Question. On page 132 of the Congressional Presentation, it is indicated that during fiscal year 1998 \$7,700,000 is being spent on software related to the year 2000 problem. a. Specifically, how are these funds being used? b. Provide the names of the contractors receiving these funds; the amount of each contract; and the purpose of each contract.

Answer. The \$7,700,000 is to be obligated, under several contracts,

for the purpose of upgrading USAID legacy and New Management System (NMS) software to be Year 2000 compliant. The Year 2000 renovation efforts will involve use of standard date/time logic, code analyzers to identify date/time code, renovation, validation, and implementation of the new systems. This amount does not cover the infrastructure costs necessary to make our desktops, servers, and networks Year 2000 compliant. These were budgeted separately.

A large portion of the \$7,700,000 is currently being awarded by the General Services Administration (GSA) to contractors performing Information Technology services under the direction of their Federal Systems Integration and Management Center (FEDSIM). Specific contractor awards have not yet been finalized.

Other expenditures related to the funding in question include the following:

\$400,000 has been awarded to Data Base Platforms under a USIA contract to develop, document, and test standard date/time processing routines.

\$100,000 is being awarded to a not-for-profit public administration consulting firm, Mitretek Systems, to support planning of the Year 2000 program in preparation for the arrival of the key contractors.

deobligations of prior year funds

Question. For all applicable accounts under the jurisdiction of the Agency for International Development, please provide an annual accounting of funds deobligated from prior years; and the amount of such deobligated funds reobligated in the year in which the deobligations occurred. Please provide this information for fiscal years 1989 through 1997, as well as estimates for fiscal years 1998 and 1999. Please provide the information on an account level basis.

Answer. The attached table reflects deobligations for fiscal years 1989 through 1997 under the authority of both sections 510 and 511, formerly 515 and 517, of the annual appropriations acts. The figures for FY 1997 are based on data from the overseas missions only. A final reconciliation of the FY 1997 Washington data in the New Management System (NMS) is currently underway.

As a result of the manner in which USAID has accounted for and programmed its no-year funds prior to FY 1998, the reobligated amounts cannot be reported by the fiscal year in which deobligated. Thus, the reobligated amounts reflected in the table include both funds deobligated in that particular fiscal year as well as any funds carried over from the previous fiscal year.

Due to the variability from year to year, prior year data cannot be used to project deobligations for the next two years at the appropriation level. One of the factors influencing this variability is the rescission of funds such as those experienced in fiscal years 1992 through 1995.

[Page 278--The official Committee record contains additional material here.]

object class 25.2

Question. On page 138 of the Congressional Presentation the object class breakdown for operating expenses indicates that spending under object class 25.2 ``other miscellaneous costs'' increased from \$5,787,000 in fiscal year 1997 for headquarters, to \$12,630,000 in

1998, and an estimated \$9,876,000 in 1999. What are these costs? Why is there such a dramatic increase in fiscal year 1998 and 1999?

Answer. The increase in costs in FY 1998 reflects requirements to do major work related to year 2000 problems throughout the Agency, correct some of the problems with the New Management Systems, and improve the Agency's credit management capabilities. This will include having experts do detailed analyses in FY 1998 to specifically identify the most critical areas needing attention. These efforts will continue into FY 1999, although at a lower cost reflecting the completion of the analytical efforts in FY 1998.

recovery of prior year operating expenses

Question. For operating expenses, please provide the actual and projected annual recovery of prior year obligations (section 509) used as a funding source for the account from fiscal years 1989 through 1999. Explain why the estimates for 1998 and 1999 are historically lower than average.

Answer. Your question cites section 509, which relates to appropriation transfers. I assume you meant to refer to Section 511, which relates to recoveries. The following table contains the information on recoveries, together with information as to actual obligations against recoveries in their first year of availability. Please note that the column on obligations refers to the amount obligated in the first year of availability. For example, the amounts recovered in FY 1992 were planned for initial obligation in FY 1993, amounts recovered in FY 1993 were planned for initial obligation in FY 1994, etc.

While our initial estimates of recoveries have been lower than final recoveries, the Agency has tried to be prudent in the use of these funds, as shown by the fact that most of these funds have, to date, been held to cover future year requirements. By FY 1999, however, it is anticipated that recoveries will be fully obligated in their initial year of being reported in the Congressional Presentation (CP)--that is, the fiscal year following the year of recovery.

The Agency makes its best estimate, based on information available at the time the CP is prepared. However, many of these recoveries are related to overseas activities, particularly changes in dollar exchange rates from the time obligations are recorded to the time final bills are received and paid. This makes it difficult to come up with fully accurate estimates. Further, the large increase in FY 1996 was due to an in-depth review of obligated balances by the Inspector General which led to many deobligations. Recoveries in FY 1997 were less than half the FY 1996 level.

During the period from FY 1992 through FY 1997, annual recoveries have averaged \$12.9 million. While our estimate for FY 1999 is \$10 million, the same as our revised estimate for FY 1998, this is due to the large reduction in actual recoveries from FY 1995 and FY 1996 to FY 1997.

OE RECOVERIES
[In thousands of dollars]

Fiscal year	CP estimate		A
	Initial	Revised	
1989.....	(\4\)	(\4\)	
1990.....	(\4\)	(\4\)	

1991.....	(\4\)	(\4\)	
1992.....	(\4\)	(\4\)	
1993.....	(\4\)	1,750	
1994.....	(\4\)	8,857	
1995.....	6,000	9,000	
1996.....	9,000	9,000	
1997.....	9,000	14,000	
1998.....	12,000	10,000	
1999.....	10,000		

\1\ This authority did not become applicable for Operating Expenses until FY 1991--the of the FY 1993 Congressional Presentation. \2\ As recoveries are held for use in t year, these amounts represent ``current year'' obligations of the recoveries generate year. For example the actual obligations of FY 1993 recoveries occurred in FY 1994 an \3\ Estimate. \4\ Not applicable.

ig semiannual report--nms

Question. In the transmittal letter to Administrator Atwood for the Semiannual Report to Congress (April 1, 1997-September 30, 1997), the Inspector General states: ``In my last two Semiannual Reports, I formed the Congress of the serious deficiencies in the U.S. Agency for international Development's (USAID) information management and financial management systems. During this reporting period little progress was made to correct these deficiencies.'' Do you agree with the Inspector General's comment? If not, what steps have you taken or will you take to deal with these deficiencies?

Answer. USAID did not have the expertise to manage a software development project of this complexity. As a result, it did not have the essential project management information to inform senior managers regularly of the risks, quality problems, cost overruns and schedule slippages that were occurring. Senior managers incorrectly believed that incremental improvements could be made and were being made to remedy these problems and bring the system to full functionality.

The IG recognized key indicators of software problems but also lacked sufficiently detailed information on the full extent of the problems to inform senior managers about the steps needed to correct them. At the time the Semiannual Report to Congress was made, our mutual concerns did indicate that an independent assessment was needed to examine the software, organizational and management deficiencies.

The independent assessment was delivered at the end of January 1998, and USAID management and the IG for the most part agree on the deficiencies and that next steps the Agency must take. This is reflected in the IG's Audit Report on the New Management System Status dated March 31, 1998. The IG highlights areas that still need further analysis, which the Agency will address once it has selected a prime contractor with the requisite technical skills to perform that analysis.

nms contractor status

Question. What is the status of the NMS contractor development payments for fiscal years 1997 and 1998? How much was paid to such contractors in 1997 and through the first quarter of 1998?

Answer. Much of the NMS contractor development effort in fiscal year 1997 was devoted to developing essential functionality to support the Agency's core business requirements. The competing demands to maintain an operational system while developing new functionality reduced the overall quality of the deliverables.

In October 1997, USAID suspended new NMS development efforts to

focus contractor resources on maintaining the operational system, correcting deficiencies and addressing certain high-management risk-requirements that were impairing the Agency's financial and procurement reporting requirements. This was responsive to an IG recommendation while awaiting the outcome of the independent assessment initiated in November 1997. USAID extended one contract in January 1998 for six months and exercised the option on two other contracts to provide an adequate transition-out plan to support NMS operations until a prime contractor could be hired under a performance based contract. The transition-out plan includes reductions in the contractor workforce assigned to NMS reflecting the suspension of the development efforts and a need to conserve funds to implement recommendations arising from the independent assessment.

The four NMS contractors were paid \$11.8 million in FY 1997 and \$3.6 million during the first quarter of FY 1998. Substantial reductions are expected in the second and third quarters of FY 1998 reflecting the transition-out plan.

treasury technical assistance program

Question. The President's budget request for fiscal year 1999 includes \$5,000,000 for a overseas technical assistance program through the Department of Treasury. Do you support this request?

Answer. Yes, we support the President's budget request.

The limited Treasury technical assistance program is a valuable complement to the broader USAID technical assistance effort in selected countries where Treasury expertise is useful in dealing with host governments on matters involving fiscal and financial policy reform.

population: funding levels, fy89-99

Question. Of the funds obligated for family planning activities from fiscal years 1989 through 1999, please indicate funding levels (on an annual basis) for the following areas:

- a. research and development;
- b. studies;
- c. conferences, meetings, and seminars;
- d. contractor, grant, or cooperative agreement overhead;
- e. reviews or audits of ongoing programs or projects;
- f. commodities;
- g. grants, contracts, or cooperative agreements with foreign governments or foreign government institutions; and
- h. service delivery directly to individuals in need of family planning assistance.

Answer. Attached are two tables which provide expenditures for family planning activities for fiscal years 1992 through 1996. USAID has only collected these data by activity since fiscal year 1992, and reporting for fiscal year 1997 through 1999 is not yet available. Expenditure data are provided instead of obligation data as these data track more closely with the activities requested here than the data collected for population obligations.

Table 1 provides the total expenditures in family planning broken down by research and development (including studies), and service delivery. Expenditures categorized as ``service delivery'' include contraceptive commodities as well as technical assistance and training in the medical aspects of provision of contraceptives; in information, education and communications for family planning; and in management and evaluation of family planning programs. While direct financing of services to individuals is also included, USAID's impact is increasingly through technical assistance activities to enable host country providers to expand and improve the services they provide with

local resources. Expenditures categorized as ``research and development'', which include primarily biomedical, social science and operations research, are also in most cases closely related to strengthening the capacity of family planning programs to expand and improve services.

Table 2 provides reporting on expenditures for commodities, and expenditures through agreements or contracts with foreign governments or foreign government (parastatal) institutions. Expenditure data in Table 2 is inclusive to reporting in Table 1. The expenditures reported here through foreign government organizations do not include in country expenditures through host country non-governmental organizations.

Conferences, meetings and seminars which are either organized by USAID's cooperating agencies, or attended by staff of USAID or our cooperating agencies, are part and parcel of our programs. For these activities, neither detailed costs nor total costs across all contracts and grants are available. Also not available are aggregate data on overhead costs for the numerous contractors, grantees and cooperating agencies who implement family planning activities in partnership with USAID. These data are highly variable amongst contractors and cooperating agencies and can potentially change on an annual basis, therefore, USAID does not routinely collect these data in a central location. Per standard practice, USAID negotiates the lowest possible overhead rates. Reviews and audits, including evaluations and routine monitoring, continue throughout the life of our programs and costs for these activities are subsumed within the total cost of the programs. Detailed expenditure data are also not available for these costs.

[Page 282--The official Committee record contains additional material here.]

costs incurred by usaid in responding to the gpri

Question. How much has USAID spent on implementing the Government Performance and Results Act (GPRA)? How much was obligated to contractors associated with GPRA development and implementation (including development and implementation of the ``R4'' process) in 1996, and how much is expected to be obligated in 1998 and 1999.

Answer. We estimate that USAID spent between \$1.5 and \$2.5 million for activities related to implementing the GPRA. However, since strategic planning, performance monitoring, evaluation and results reporting are an integral part of the way USAID manages its programs and its resources under reengineering, this estimate includes costs we would have incurred without the GPRA to manage our resources responsibly. This estimate includes specific operational planning, monitoring and management costs.

For example, we developed four important products whose importance to and use within the Agency go well beyond meeting GPRA requirements. These included the Agency Strategic Plan which we developed in consultation with the Department of State and other partners, stakeholders and customers; the Annual Performance Plan; the Agency's program performance data base; and the Annual Agency Performance Report. We estimate that these activities took approximately six person years of direct-hire time or approximately \$600,000 in direct-hire costs and up to \$1,000,000 in contractor costs. Again, most of these are costs associated with USAID's managing for results, and would be

incurred even in the absence of GPRA.

USAID's Results Reporting and Resource Requests, R4's, are part of our overall management system. We expect every manager in USAID to focus on, monitor and report on results and to use this information in his or her daily work or in other words to ``manage for results''. This makes it impossible to develop a separate cost estimate for R4s. In general, in accordance with best practice in U.S. business, we recommend that bureaus and individual operating units allocate between 3 to 10% of their resources to strategic planning, performance measurement and analysis and evaluation. USAID's guidance is that costs must be justified by the management value of the information to be generated. We also recommend that managers consider alternatives such as low cost methods and narrowing the scope of the requirement information. We believe that actual spending is on the low end of that spectrum.

We expect that our costs for strategic planning, performance monitoring, and results reporting will remain at similar levels in 1998 and 1999. How much we obligate and spend will depend on how issues on the timeliness of data and the extent to which output data ought to be submitted along with outcome information are addressed. Efforts to accelerate data collection and analysis could profoundly increase requirements for OE staff and resources and decrease the amount available for program implementation. Such options must be weighed against expected improvements in either the information available or the management of the programs. In any case, the options chosen must reflect the diversity of our programs, our world-wide engagement and the level of effort required to collect, analyze and generalize in a way that is useful to high level decision makers.

cdie program budget

Question. What was the budget (including buy-ins) for the Center for Development Information and Evaluation (CDIE) for fiscal years 1993-1997, and the anticipated obligations for fiscal years 1998 and 1999? Please display buy-in separately.

Answer. The following is the program budget, including buy-ins, for the Center for Development Information and Evaluation (CDIE) for the fiscal years 1993-1997 with anticipated obligations for fiscal years 1998 and 1999.

cdie program budget [\$000 in thousands]		
Fiscal year	Core	B
1993.....	\$12,173	
1994.....	7,185	
1995.....	8,049	
1996.....	6,513	
1997.....	6,272	
1998*.....	5,834	
1999*.....	5,900	

Note: *Planned.

democratic transition funds for belarus and local government in russia

Question. Belarus is not budgeted to receive any Democratic Transition funds in fiscal year 1999, and Russia is not budgeted to receive ``Local government'' support funds. Does this indicate that

USAID is satisfied that further U.S. government democratic transition assistance in these countries is not appropriate or necessary? If not, what is the significance of this lack of funding?

Answer. No. In Belarus, because the budget level is modest and USAID's activities encompass several sectors, democracy assistance activities are included under Special Initiatives/Crosscutting Programs. USAID's priorities in Belarus are to promote democratic and economic reform, as well as to provide humanitarian and health sector assistance.

Of the \$6.3 million requested for USAID activities for Belarus in FY 1999, over \$2.5 million is projected to fund democracy-related activities. These activities consist of strengthening non-governmental organizations (NGO), independent media, local institutions dedicated to changing Belarus' legal culture, and developing respect for the rule of law at the grassroots level. Specifically, USAID assistance supports legal education seminars for lawyers, judges and students; encourages citizen participation in political decision-making; strengthens the ability of independent media to objectively report the news; and provides seed grants to NGOs and Belarussian organizations to promote political and economic reform.

For Russia much of the FY 1999 assistance program is targeted at the grassroots level and \$20.9 million for democratic transition assistance. While the specific activity entitled ``Municipal Finance and Management'' (which targeted three Russian cities) ended in October 1997, support for local government is an integral part of USAID's Russia program. Historically, over 70% of USAID's activities have been outside Moscow, including significant work at the oblast and municipal level in areas such as housing, small business development, health care reform, and NGO development.

One of the premises of the Regional Investment Initiative is to assist specific oblast and municipal governments reduce the barriers to foreign and domestic trade and investment and stimulate the private sector to become the engine of true economic growth. The goal is to create working models for other oblasts and municipalities to use in their own reform efforts. One of the major innovations in USAID's tax reform program is to work not only at the central level but also to work with regional and local governments to develop the legal and regulatory framework for a fair and transparent tax system.

cross-cutting and special initiatives

Question. Please breakdown the request for cross-cutting and special initiatives, by country, for eastern Europe (total of \$94,205,000) into the major programs with additional information as necessary.

Answer. The attached table presents an estimated breakdown of cross-cutting and special initiatives programs by country for FY 1999 for both SEED and ESF funds. The SEED funded programs either fall outside the strategic framework of a country program, or are cross-cutting in nature, supporting more than one strategic objective.

Training and exchanges include USAID participant training programs through World Learning, and USIA exchange programs such as Ron Brown Scholarships and Freedom Grants. They support more than one strategic objective in most countries.

Peace Corps Small Projects Assistance falls outside the strategic framework of three missions. The American Bar Association--Central and Eastern Europe Legal Initiative program supports several strategic objectives in Bulgaria, Croatia and Poland. The Democracy Commission is considered a special initiative in Poland, since Poland does not have

the citizens' participation strategic objective within its strategic framework.

Enterprise Funds in Bulgaria and support to rural financial institutions in Macedonia fall outside the strategic objective framework of the respective countries. Macedonia's current strategic framework does not include strengthening the financial sector. Bulgaria considers the Enterprise Fund to be outside its manageable interest.

Southern Tier regional includes the South Balkan Development Initiative which is improving links among the South Balkan nations, and the Southeast Europe Cooperation Initiative which is encouraging regional cooperation in a number of areas including customs and energy efficiency.

In Bulgaria, the transfer to the Department of Treasury program supports government debt management and tax administration, while funds for labor support American labor's international programs. In Romania, the Treasury transfer program includes assistance to the Government in budget, debt and tax administration.

Evaluations across countries, program management, monitoring and support both in Washington and overseas are cross-cutting. Performance funds are set aside for new or accelerating reform or superior performance in key sectors, such as occurred in the Romania capital markets sector during FY 1997.

ESF funds will be used for balance of payments support in Albania; to fund the International Fund for Ireland; and for the bicomunal development and scholarship projects in Cyprus which encourage participation from both communities.

[Page 286--The official Committee record contains additional material here.]

independent media

Question. The Committee notes that significant funds have been expended on the development of independent media in Eastern Europe and the NIS by Internews, RAPIC, the now defunct International Media Fund, the ProMedia program, and others. The Committee requests copies of independent evaluations which have been conducted of all USAID-funded media support programs in Eastern Europe and the NIS since 1995.

Answer. In May 1995, USAID conducted an independent evaluation of the International Media Center in Ukraine. Within the next six months, USAID plans to initiate independent evaluations of Internews' programs in Central Asia and the Caucasus, and of the ProMedia program in Central and Eastern Europe.

[Clerk's note.--The Committee records contain the Evaluation of International Media Center in Ukraine.]

citizen participation programs

Question. In light of the current social unrest in Albania, the Committee is concerned that the Albania Democratic Transition budget is excessive--especially the Citizen Participation programs--and that the country cannot absorb these funds without excessive waste. The Committee requests that USAID provide it with the independent evaluation (with recommendations) made of USAID-funded programs in Citizen Participation.

Answer. USAID recently carried out an independent evaluation of its two regional programs under Democracy Network (DemNet) Program, a Presidential initiative for Eastern Europe which began implementation

in 1994. The two implementors are the International Center for Not-for-Profit Law (ICNL), which supports strengthening of the legal environment for NGOs, and Freedom House (formerly National Forum Foundation), which fosters CEE regional networking for NGOs. Albania was one of the countries covered in the evaluation. Attached you will find a copy of this evaluation, with Albania-specific observations found in Appendix 3A.

With respect to the ability of Albania to absorb US assistance monies, the Citizen Participation programs by and large emphasize technical assistance and training, with subgrants to local organizations playing a relatively small role. Specifically, ORT, the bilateral Democracy Network implementor for Albania, has distributed only \$360,000 of its \$1.75 million budget in subgrants. Of the \$20,000 that Freedom House has provided for regional activities involving Albania, a relatively small amount has gone directly to Albanians. Finally, ICNL solely provides direct technical assistance to Albanian lawmakers and NGOs, and therefore has no subgrant activities.

[Pages 288 - 363--The official Committee record contains additional material here.]

Question. Romania has the second-largest population in central Europe. However, the Democratic Transition budget is low compared to other countries in the region particularly if a comparison is made of funding on a per capita basis. Why is that?

Answer. According to Freedom House data, Romania has evidenced the greatest increase in democratic freedoms from 1934 to 1997 of all countries in Central and Eastern Europe, currently ranking just behind the most advanced northern tier countries. Nevertheless, Romania's democracy budget has increased from \$4.7 million in FY98 to \$5.5 million in FY99. Most of the increase will go to local government, but all democracy programs will benefit including NGOs and independent media. We believe that this continues to constitute a significant level of support for democracy-building programs, even in comparison with the other country programs in Central and Eastern Europe (CEE).

In reviewing FY99 ``democracy transition'' funding plans, Romania ranks fifth in dollar terms of the ten SEED-financed country programs. In terms of both actual dollar level and per capita commitments, two country programs which clearly exceed Romania's planning level are Serbia and Montenegro, and Albania. It is clear that these levels of support are appropriate. A true democratic transition has not yet begun in Serbia and Montenegro, and the fragility of Albania's slow progress in establishing stable democratic processes and institutions was highlighted by the political and social upheaval just one year ago.

In comparison with both Albania and Serbia and Montenegro, Romania has progressed much farther on the path of democratic transition. The Romanian people have enjoyed steady progress since 1990 in both the development of political rights and civil liberties. The November 1996 presidential election demonstrated that Romania was committed to democracy, an open electoral system, and a pluralistic political party structure. The election sent the signal, both to the Romanian people and to those outside Romania, that the country was wedded to a modern, western oriented, and stabilizing political process.

In addition to progress on the political front there are numerous NGOs in Romania, many of which attempt to influence public policy, seek

to represent special interests, or try to improve local communities. Elected city mayors throughout Romania are showing themselves to be capable leaders and are making effective efforts in providing their residents with good public service and responsible fiscal management.

With regard to the two other country programs whose democracy support plans exceed the planned budget in Romania, we believe that factors specific to those countries' transition strategies have enhanced the apparent emphasis on overall democracy assistance. In Poland, with approximately twice the population and a bit more than twice the planned budget level, planned commitments for democracy transition assistance are fairly similar in per capita terms. In Bulgaria, with roughly half the population of Romania, planned commitments clearly exceed those of the Romania program. In both Poland and Bulgaria, however, local government and regional development initiatives constitute a major element in the economic and democratic transition strategies. These commitments, which grew from assistance needs and opportunities which were specific to these two countries, serve to enhance the apparent importance of democracy sector funding within the overall country program. In Poland, which is reaching the end of its program of SEED Act assistance, the local government initiative is the single largest remaining activity.

democratic transitions budget

Question. The current ``Democratic Transitions'' section of the fiscal year 1998 and 1999 Congressional Presentations divides individual country budget requests into the following three categories; (1) citizen participation; (2) legal systems; and (3) local government. These breakdowns are not specific enough for the Committee to determine the purposes and objectives of the programs being funded, and the funding priority that USAID has assigned to the objectives. The Committee requests that USAID resubmit the Democratic Transition budget of the 1999 Congressional Presentation, breaking down the expenditures on a country-by-country basis, into six categories as follows:

a. National governance--programs that strengthen national governance, including civil service reform, public administration, leadership and management training, structures, systems, and process in legislative and executive capacity;

b. Local governance--programs that strengthen local governance, including public administration leadership and management training, structures, systems and process in legislative and executive capacity;

c. Independent media--programs that strengthen the quality of news reporting and media management capacity of independent press to ensure multiple and commercially viable media outlets, including journalistic and management training;

d. Democratic electoral practices--programs that ensure free and fair elections, including electoral rule of law and systems, and strengthened multiple party systems;

e. Rule of law/legal reform--programs that strengthen constitutional democracy, individual, human, and minority rights, transparency, and an independent judiciary;

f. Citizen participation--programs that strengthen participatory democracy or two-way communications between government and its citizens (between elections), particularly NGO development, including training, grant making, legal support, and volunteerism.

Answer. A revised Democratic Transitions budget for 1999 is provided in the attached table. The following explanatory notes identify and elaborate on important aspects of the budget:

The disaggregation of the Democratic Transitions budget into six

categories represents the ENI Bureau's best estimate. Some activities contribute to more than one category, hence our disaggregation may not completely capture the full level of effort in a given category.

The budgetary information in the Congressional Presentation is based on the Strategic Objectives (SOs) developed by the ENI Bureau. The SOs provide the framework for USAID programs; however, because of differing circumstances in each country they are not, and are not expected to be applied uniformly by each Mission.

The different applications of the SOs create some anomalies in reporting on planned budget levels by the categories requested. In particular, the Citizen Participation category is probably overstated. For example:

The Croatia, Macedonia and Serbia programs include local governance activities but, because those Missions have organized their democracy portfolios around a single SO, those activities are included in citizen participation and not local governance.

Assistance in areas such as strengthening national level public administration and legislative capacity is being provided in countries such as Romania and Ukraine, but those activities are also being captured under citizen participation as a consequence of the framework chosen by the respective Missions.

In Central Asia, the portfolio includes activities focused on rule of law, but the Mission determined that they are not of sufficient magnitude to support a SO dedicated to rule of law; instead, those activities are captured under citizen participation.

In Bosnia, Belarus, and Turkmenistan democracy-related activities are planned for FY 1999, but the nature of the overall programs in those countries resulted in a limited number of Strategic Objectives being chosen, none of which are associated with democratic transitions. We have added these countries' budget information on their democracy programs to our table in order to reflect total funding planned for democracy transitions.

For Central Europe, the Citizen Participation category is higher than in previous years because:

The Serbia program (\$15 million) is in its start-up phase and the principal objective is to support grass roots, local level organizations that generate increased citizen participation in shaping the changes occurring in that country.

The Regional program includes the first increment of funding for the USG contribution to the endowment for the CEE Trust for Civil Society (\$12.5 million).

In addition, also attached are tables providing a country-by-country breakout of the six categories for the years 1996-1998. As shown in the summary table, the total budget for the four-year period 1996-1999 is estimated to be slightly over \$500 million. Of that amount, approximately \$324 million correspond to the three categories which conform to the ENI Bureau's Strategic Objective (SO) related to increased citizen participation in the democratic process: democratic electoral process, media and citizen participation (specifically through support to NGO development). When the SO budget is broken out among these categories, the amount that directly corresponds to NGO development is approximately \$166 million, or slightly more than half of the budget associated with this Strategic Objective and about one-third of the total democratic transition budget. In FY 1999, the planned amount for Citizen Participation/NGO Support jumps substantially and is the result of increased funding for Serbia (where civil society development is the focus of the program), the initial

increment of funding for the CEE Trust, and an increased NGO budget in Russia.

[Pages 366 - 370--The official Committee record contains additional material here.]

ngo support

Question. For fiscal year 1999, USAID is proposing that U.S. government funds continue to support non-governmental organizations. In addition, it proposes to restructure the means by which this support is provided. USAID has proposed that special trusts, or endowments, with relatively large budgets, be formed to become the new grant-making vehicles through which U.S. government funds would support indigenous NGO's in eastern Europe and the new independent states of the former Soviet Union for up to 10 years. It is the committee's understanding that these trusts will be public-private partnerships.

USAID has supported NGO development in the emerging democracies in recent years through different grant and cooperative agreement programs, such as the Counterparts program in Belarus, Moldova, and Ukraine; the Democracy Network Program in central Europe; and the Save the Children program in Russia.

Prior to initiating new programs, it would be desirable to assess these and other major NGO-support initiatives and their results. In that regard, the Committee requests that USAID provide:

a. a country-by-country breakdown of the NGO-support budget contained in the 1999 Congressional Presentation for central Europe and the NIS, and the approximate funding priority (by percentage or amount) that will be assigned to: training, sub-grants, program management and other important categories of expenditures.

Answer. The attached table provides the planned FY 1999 budget levels for all NGO-support activities in eastern European and the NIS. Typically, budgets for NGO support activities finance technical assistance, training, workshops, limited amounts of equipment, sub-grants, and program management costs. The amounts dedicated to each of these can vary substantially depending on the specific focus of the NGO activity. In the case of program management, however, USAID experience is that direct costs (i.e., staff, travel, etc.) plus indirect costs (overhead) generally average between 40% and 50% of the total budget.

For all proposed special trusts or endowments, USAID plans to undertake separate briefings for Committee members and staff.

[Page 372--The official Committee record contains additional material here.]

ngo-support initiatives in cee and nis

Question. The Committee requests that AID provide:

c. a list and brief description of AID's major NGO-support initiatives in central Europe and the NIS since 1995, including the kinds of NGOs supported and the priority that different sectors (economy, environment, democracy, and social safety net) have received (as defined in the DemNet program which defines public policy-oriented

NGOs active in these four sectors).

Answer. To develop and strengthen civil society in Central and Eastern Europe (CEE) and the New Independent States (NIS), USAID has awarded cooperative agreements to US PVOs on a country-by-country basis to respond to specific needs. Additionally, in the CEE, USAID has awarded one cooperative agreement for regional activities. A brief listing of these initiatives follows:

central and eastern europe

Albania

The Organization for Educational Resources and Technological Training (ORT) provides training and small grants to Albanian NGOs. The program strongly emphasizes capacity building and working with NGO leaders to improve their managerial abilities. This effort includes strengthening lead organizations, a program of training for trainers, and the design and implementation of a comprehensive leadership development for staff from a core group of grant recipients. ORT awards small grants to public policy-oriented NGOs primarily in the democracy sector.

Bulgaria

The Institute for Sustainable Communities (ISC) is working to support and strengthen a critical mass of NGOs that will be able to have an impact on building civil society in Bulgaria by engaging citizen participation in public policy debate and advocating for policy change. To achieve this goal, ISC is helping to improve the image of the NGO sector by assisting NGOs to: carry out their missions and activities effectively, improve their public accountability and to increase their ability to mobilize citizen participation for policy formation and advocacy. To achieve its results, ISC provides training and technical assistance, networking and partnership promotion, and publicizes its successes. ISC awards small grants to public policy-oriented NGOs primarily in the democracy and environment sectors.

Czech Republic

The Foundation for Civil Society's (FCS) program had three parts: a small grants program, training assistance, and a journalism assistance program.

Under the small grants program, FCS provided funds to NGOs to cover program costs, operation expenses, and training. For the training, FCS partnered with several Czech organizations (Partners for Democratic Change-Czech, the Lotus Foundation, and Places in the Heart Foundation). Training included workshops on topics such as fund-raising, NGO management, communication with the general public, and public relations, as well as one-on-one assistance in areas such as proposal writing and financial and technical report writing. FCS also created a Journalism School Internship Program at three Czech universities that placed journalism students in NGOs to write press releases and work with the media. FCS awarded small grants to public policy-oriented NGOs primarily in the democracy and social safety net sectors.

Estonia

The U.S. Baltic Foundation (USBF) provided training and small grants to Estonian NGOs. The training sessions focused on the roles that NGOs could play in the democratic process, as well as giving NGOs the tools necessary to become self-sustaining, effective participants in local and national decision-making. USBF supported public policy-oriented NGOs that was primarily focused upon the democracy sector, but with a secondary emphasis on the social safety net and environmental sectors.

Hungary

United Way International (UWI) provides training and small grants to Hungarian NGOs. Training includes sessions on public-private partnerships, local economic development, and joint project development. UWI also helped to establish a network in five hub cities with important ties in each community to both NGO and local government leaders. UWI awards small grants to public policy-oriented NGOs, primarily in the social safety net and democracy sectors.

Latvia/Lithuania

USBF provides training and small grants to Latvian and Lithuanian NGOs. The training program has helped these NGOs to become strong, effective, and self-sufficient. Initially the training provides targeted NGOs with basic growth tools, and then concentrates specific training activities to a small number of NGO professionals who will serve as future trainers for the entire NGO sector. Training topics include fundraising, sustainability, and organization building. USBF has awarded subgrants to public policy-oriented NGOs in all sectors, but predominantly in the areas of democracy and social safety net restructuring.

Macedonia

ISC strengthens public policy-oriented NGOs in the environment and democracy sectors in Macedonia to enable the citizens they represent to participate more actively and effectively in the political and economic life of Macedonia. ISC is working with a core group of Macedonian NGOs which receive targeted training and technical assistance in organization management, external relations, and developing advocacy skills. ISC also awards small grants to Macedonian NGOs.

Poland

The Academy for Education Development (AFD) works with public advocacy NGOs to help them become financially and organizationally sustainable with a demonstrated ability to cooperate and influence local government. AED provides intensive training and technical assistance to its grantees to improve their knowledge and skill in organizational development and management. AED also supports a consortium of six Polish NGOs to develop the capacity of the consortium to assist other Polish NGOs in issues such as registration, legal and accounting issues, proposal writing, fund raising, developing coalitions, managing staff and volunteers, planning, and public relations. AED has worked closely with NGOs to develop NGO-local government relations. Since 1995 there have been seven local government supported grant programs established by virtue of local ordinances passed by city councils, and an additional four are under consideration. AED has provided subgrants to advocacy NGOs in democracy, economic restructuring, environment, and social safety net, although about half of the financial support has gone to democracy NGOs.

Romania

World Learning has provided training, technical assistance, and grants to Romanian NGOs to help support the institutional sustainability of the sector as a whole. The World Learning approach to NGO strengthening: precipitates the organizational development necessary to lead to sustainability of Romanian NGOs; develops the capacity of existing NGO support structures to provide necessary and desirable information to the NGO community that they serve directly; and lays the groundwork for the creation of a permanent, sustainable and indigenous network of NGO support institutions and professional development capacity for NGO leaders. Topics for training include

financial management, institutional development, and external relations. World Learning awards grants to public policy-oriented NGOs primarily in the democracy and economic development sectors.

Slovakia

The Foundation for Civil Society (FCC) is working with indigenous NGOs to provide them with skills and expertise in the area of public policy advocacy. To implement this, FCC awards subgrants and provides training and technical assistance. Training is provided through three Slovak partners: the Slovak Academic Information Agency, partners for Democratic Change-Slovakia, and the Center for Independent Journalism. Training topics include human resources development, communications skills, and organization development. Individual consultations are provided in proposal writing, application preparation, and volunteer management. Subgrant recipients also receive assistance in media relations and presentation of information to the press. FCC awards subgrants to public policy-oriented NGOs primarily in the democracy sector.

CEE Regional

Freedom House (FH) provides information, communications, and coordination support to the 11 individual country programs implemented under the Democracy Network program. This support includes CEE regional networking, regional exchanges and grants (East-East) within the CEE, a regional NGO newsletter and financial support for issue-oriented conferences and cooperative research. Freedom House support NGOs in all sectors, but with primary emphasis on democracy and economic development.

new independent states--the caucasus

Armenia

The Armenian Assembly of America's NGO Resource and Training Center (NGOC) provides support, with resources, training and information services, to a diverse group of indigenous NGOs, aimed at developing their capacity to respond effectively to short-term emergency and long term development needs in Armenia. Through training and public education, the NGOC promotes an increase in the number of active registered indigenous NGOs providing services heretofore provided by the government (pre-national independence) and/or international donor organizations, to speed the process of transition from post-Soviet crisis, to stable independence. While the NGOC training is focusing on providing assistance to all public policy-oriented NGOs, priority areas to date have been environment and social safety net.

Azerbaijan

ISAR (formerly Institute of Soviet American Relations) is working to increase the number and to improve the organizational sophistication of Azerbaijani NGOs, through training, small grants, and information distribution/outreach. ISAR training offers basic advice on creating NGOs to individuals and members of initiative groups, provides individual consulting to targeted NGOs, and conducts a series of NGO management and development for NGO representatives. ISAR translates and distributes training materials for Azerbaijani NGOs. ISAR supports advocacy NGOs, primarily in the environment and social safety net sectors.

Georgia

ISAR is working to support and solidify the long-term sustainability of the NGO sector through a training program, small grants, and the information distribution/outreach program. ISAR helped to establish Horizonti, a Georgian foundation, to continue ISAR's activities after it phases out its program in Georgia. ISAR conducts

basic management courses for new NGOs and conducts specialized workshops for more advanced NGOs. ISAR has also developed and published a Georgian-language NGO Management and Development training book. ISAR awards small grants to advocacy NGOs, primarily in the environment and social safety net sectors.

Central Asia

In Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan, the Counterpart Consortium supports the creation of democratic and sustainable NGOs that make a difference in people's lives by representing citizens' interests, providing services to vulnerable groups within the population, and supporting NGOs in four sectors: economic development, democracy, environment, and social safety net--with the ultimate goal always to increase democratic participation. To accomplish this goal, Counterpart provides training, grants, and partnership development programs to advocacy NGOs to help them strengthen their organizational, management, advocacy, coalition-building, and service delivery skills. Individual country highlights follow:

Kazakhstan

With most government agencies now relocated to Akmola, the new Kazakh capitol, the Counterpart Consortium helps NGOs continue to home strategies for engaging government.

Kyrgyzstan

Taking advantage of a government relatively open to citizen involvement and NGO activity, Counterpart Consortium assists Kyrgyz NGOs initiate additional legal, civil and education reform and develop strong collaborative relationships with all levels of government.

Tajikistan

In a country that is facing continual strife and increasing economic vulnerability, Counterpart Consortium has focused its support on NGOs providing relief for displaced persons and promoting conflict resolution.

Turkmenistan

In a society with little experience in non-traditional NGO activity, the Counterpart Consortium is assisting NGOs gain strength and a foothold in Turkmen society--despite centralized government control.

Uzbekistan

In a country facing increasing economic hardship due to currency controls, Counterpart Consortium is assisting NGOs implement new strategies for survival and localized impact.

russia

The Civic Initiative Program (CIP) in Russia, administered by Save the Children, focuses on improving the external operating environment for NGOs (i.e. the legal and regulatory environment, public attitudes towards NGOs, and support from the government and private sectors); promoting the establishment of action-oriented networks of NGOs with members who represent a broad, diverse constituency; and developing a target group of NGOs who manage themselves efficiently, act effectively on behalf of constituents, and serve as a model for the sector. To implement this program, CIP has conducted training sessions on topics such as NGO management, social marketing, and computer skills. CIP also established regional centers in Siberia and southern Russia which have transitioned to Russian management. CIP has supported public policy NGOs in the economy, environment, democracy, and social safety net sectors.

Belarus/Ukraine

The Counterpart Alliance is providing support for the birth and growth of effective, sustainable NGOs which are capable of providing needed social services to vulnerable groups within Belarus and Ukraine, expressing and protecting citizens' interests in dialogue with governments, and promoting continued democratic and economic reform. Counterpart provides technical assistance and training, as well as small grants, to implement this program. Counterpart is focused on giving assistance to social safety net and advocacy NGOs.

ngo program support budgets

Question. The Committee requests that AID provide:

d. a brief summary of the NGO-support program budgets (by country) of each of AID's major subgrant programs that support NGO's through the SEED Act and the Freedom Support Act, specifying the name of the U.S. program manager, including (1) the country program's total budget (with amendments), (2) the program's start and end date, (3) the total amounts of funds awarded to indigenous NGO's through the individual subgrant programs; and (4) any notes needed for clarification.

Answer. Attached are two tables which summarize USAID's major NGO support program budgets under the SEED and Freedom Support Acts. It should be noted that the difference between the total obligations and subgrants is comprised of a bundle of costs including: training, technical assistance, workshops, equipment provision, as well as program management.

Since USAID's NGO programs maintain a systematic emphasis on capacity building and accountability, often NGOs receive substantial training and technical assistance both before and after being awarded a grant to ensure that they are able to manage the funds responsibly and transparently. Therefore, subgrant figures alone do not adequately measure the full range of initiatives that USAID implements to support the development of the NGO community.

[Pages 377 - 378--The official Committee record contains additional material here.]

assessing the need for u.s. support to the ngo sector

Question. In determining the continuing need, and possible future role for U.S. support of NGO's in emerging democracies, the overall needs of the region's NGO sector, along with the needs of competing sectors (independent media, for example) that also strengthen the democratic transition.'

Answer. In countries with passive or authoritarian governments, USAID's Bureau for Europe and the New Independent States considers its ``citizen participation'' strategic objective as the foundation for initiating reform across the spectrum of democratic needs. USAID reevaluates its funding priorities in countries when the advent of more reform-minded governments creates greater opportunity for reforms requiring government cooperation, such as strengthening the rule of law or local governance. This assessment of opportunities and realignment of priorities within the democracy sector occurs--at the latest--over the course of USAID's annual Results Review and Resources Request (R4). For example, USAID recently added a separate Rule of Law objective to its Albania and Bulgaria democracy programs and increased funding under the local government strategic objective in its Romania program.

Of the elements crucial to facilitating citizen participation-- independent media, a free and fair electoral process, competitive and representative political parties or an active network of advocacy NGOs--USAID's Bureau for Europe and the N.I.S. has given special attention to assessing the progress and the existing needs of the not-for-profit sector. USAID views the not-for-profit sector, in particular, advocacy NGOs, as an essential vehicle for promoting and sustaining reforms both democratic and economic reforms. Within the democracy program it often falls on advocacy NGOs to lead the charge for greater adherence to the rule of law, advocate for electoral reform or decentralization, or speak up for the rights of journalists. In this sense, NGO support programs are the means to broader ends.

USAID considers the needs of the NGO sector to be greater than that of most other democracy sectors and more conducive to change. Limited assistance dollars have a far greater impact on the nascent NGO sector than, for instance, on civil service reform at the central government level. Generally, USAID missions in the Balkans, Caucasus and Central Asia continue to report a need for capacity building training and technical assistance in areas as diverse and basic as organizational development, financial management, and governance issues, such as defining the role of the board of directors. USAID's strategy is to nurture a core of model NGOs which other NGOs in a given country can emulate, while simultaneously developing local NGO resource centers which can provide the training and technical assistance currently provided by U.S. implementors.

This strategy has for the most part already been implemented successfully in the northern tier countries of Central Europe, but is only in the early phase of implementation in the southern tier countries. Advocacy NGO's throughout the region, however, face an uphill battle in securing the financial footing that will allow them to be both politically independent and have adequate resources to do their work in a professional and competent manner. USAID is therefore collaborating with private U.S. foundations to create a special trust/endowment that will provide a stable funding base for the next ten to fifteen years while promoting financial sustainability for the NGO sector through indigenous philanthropy and other revenue raising mechanisms. The initial focus of the trust/endowment will be in the northern tier countries and will shift to the southern tier over a five to seven year period.

The essential contribution of the independent media in facilitating citizen participation is indisputable. As economies begin to recover and independent media is liberalized in a country, however, its ability to fend for itself increases. Unlike NGOs' independent media outlets are businesses that are well-positioned to raise revenues. Some private, nationwide media outlets attract the attention of and benefit technically as well as financially from business partnerships with international media companies. Therefore, USAID's media activities focus particularly on countries in which liberalization has not yet taken place.

non-u.s. government support to ngos

Question. Please provide the current levels of NGO support in eastern Europe and the NIS provided by non-U.S. and foreign foundations and foreign governments (e.g., Ford, Soros, NED, Mott, RBF, GMF, EU/Phare and TACIS, British Know How Fund, as well as other private foreign groups and governments in Canada, Holland, Germany, Great Britain, Japan, etc.)

Answer. While USAID/Washington coordinates with other donors at the

broad policy level, USAID/Washington neither routinely nor systematically collects public or private donor funding information related to donor support of the NGO sector in individual CEE and NIS countries. Rather, USAID field missions coordinate as needed with other donors in-country to develop NGO programs. In this way, our field staffs are able to develop USAID NGO country programs which reduce duplication and improve compatibility of effort without the administrative burden of tracking the expenditures of myriad financing sources.

Selected examples of donor coordination are Russia, Bulgaria, and Croatia:

1. Through coordination efforts, the USAID mission in Moscow has developed a clear understanding of the activities of the various donors in the NGO sector in Russia. It also tracks the funding allocated to the sector. For example, in 1997, Soros' Open Society Institute provided \$35 million, the Eurasia Foundation \$6.3 million, the Mott Foundation \$6 million, TACIS \$5.5 million, and the MacArthur and Ford Foundations and British Know How Fund together provided a total of approximately \$8.5 million.

2. The USAID mission in Sofia holds monthly meetings with the donors working in the NGO sector to discuss programs and coordinate efforts. This has led to improvements in resource allocation and harmonization of effort. For example, the mission assisted the EU to design its NGO grant program in Bulgaria, thereby assuring that no duplication of effort took place and improving synergies among the two programs. Through its coordination efforts, the mission was able to convince the Council of Europe, British, Dutch, Danes, and Swiss to fund specific projects, developed by a local foundation established by the mission, aimed at municipal reform and thereby assuring greater impact in the area.

3. The USAID mission in Zagreb found through its coordination efforts that the other donors were slow to identify priority needs and had only limited capacity to develop new projects. In recognition, the mission worked with the Norwegians to expand a USAID program aimed at providing people resident in Eastern Slavonia with legal services needed to obtain documentation allowing them to remain in Croatia. This resulted in an about \$1.0 million of Norwegian funding being channeled into this USAID effort and enabled over 200,000 Croatians to obtain documentation that may enable them to return to their communities of origin. Through donor coordination, the mission was also able to shift from providing humanitarian assistance to other areas in need of support. This was accomplished by convincing ECHO, EU, UNHCR, and several NGOs to take up the task.

unique aspects of usaid assistance to ngo's

Question. Anticipating that significant non-U.S. government funds are already being spent to support NGO's in central Europe and the NIS, the Committee is concerned that limited U.S. government funds could be better spent elsewhere, or that other sectors are being short-changed. The Committee requests that AID discuss how U.S. government funds will be differentiated and targeted to achieve specific objectives. What is unique about U.S. government support for NGO's? What unique strategies and priorities has AID developed to make a contribution to increasing NGO effectiveness and influence to advance political, economic, and social reform in emerging democracies?

Answer. While there is considerable donor activity in this sector, USG support stands out in several respects:

1. USAID's systematic emphasis on capacity building and

accountability. EU Phare and private funding typically put less emphasis on training and technical assistance. USAID implementors typically work more intensively with a local grantee before and after a sub-grant is made. USAID implementors expect prospective grantees to apply what they have learned in training with regard to narrowing their focus to achievable objectives, developing realistic budgets and management plans, for instance, in the proposal writing process. After a grant is made, USAID implementors follow up by monitoring performance and enforcing more stringent reporting requirements than is typically the case. Thus subgrants become a tool for promoting organizational development and for demonstrating just what is meant by abstract terms such as accountability. SAID believes that this emphasis on transparency and accountability ultimately benefits the recipient NGO and the NGO community as a whole because it protects them from the suspicion with which NGOs are typically viewed in their home societies.

2. Scale and the implementation of a sector- and region-wide strategy. USAID's funding of this sector has been long-term and substantial enough to allow USAID to develop sector-wide strategies in the individual countries, encompassing targeted interventions addressing the legal environment, the organizational development of individual NGOs and the supporting infrastructure, financial sustainability defined broadly, and the public understanding of the sector. The regional networking activity, coupled with the presence of NGO support activities in every country in the region, has allowed USAID to disseminate lessons learned in one country to others with relative ease as well as allowed all countries to benefit from highly specialized expertise, such as in corporate philanthropy, in an efficient manner.

3. Advocacy. Initially through the Democracy Network program in CEE, but increasingly in the NIS as well, USAID has placed special emphasis on advocacy NGOs. This has given the USAID program focus and has the added benefit of building up the demand for continued and sustained reforms in all aspects of the transition. Initially the emphasis on advocacy meant that communications skills, policy analysis and political presentation skills were taught to NGO activists. Increasingly, the programs are linked to other initiatives in a given country program, such as local government programs so that the political process in a given city is strengthened by working intensively with both local government officials and institutions and the local NGO community. In this way, institution building serves as preparation for a second stage in which two actors in the democratic process are literally coached in how to interact more constructively and effectively with each other.

transregional democratization programs

Question. At a recent Capitol Hill forum on U.S. democratization programs, Administrator Atwood was urged to increase USAID's support for transregional democratization programs between the NIS and central Europe. The Committee requests the USAID provide information on current programs; on the need for additional transregional programs; and on the plans to increase such activities.

Answer. USAID is implementing a series of transregional networking activities that promote information and professional exchanges on the subject of good governance at the local level throughout Eastern Europe and the New Independent States. The goal is to create regional and sub-regional networks--formal and informal--in Europe and the NIS which provide experience-based information to local government officials, municipal association members, and relevant national officials, who can

then use this information to improve their responsiveness to citizen needs and solve municipal problems. Activities thus far have included a major conference in December 1996 in Sofia on the role of local government in transition countries, targeted technical seminars and workshops, and the compilation of a ``best practices'' guide. The guide provides brief descriptions and analysis of successful solutions to common problems faced by cities in transition countries. It has been widely distributed in the ENI region and is available on a local government website.

A second major regional conference, to be held in November, also in southern Europe, will address the theme of mobilizing community resources for local economic development and will bring together representatives of local and national governments, the NGO community and the private sector.

USAID's media assistance portfolio includes transregional training for journalists from NIS countries and Eastern Europe in such areas as television/radio station management, ethics training, investigative reporting, etc. In the future, USAID plans to introduce transregional journalism exchanges, whereby journalists from Eastern Europe will visit television/radio stations and newspapers in the former Soviet Union, to impart more modern techniques of station and newspaper management.

In the near future, USAID also plans to initiate a pilot transregional program linking NGOs in Belarus and Ukraine with counterparts in Poland and Lithuania. Through small grants to NGOs and exchanges of NGO personnel, USAID will promote information and skills-sharing among NGOs working on such issues as ethnic tolerance, minority rights, conflict resolution, and local government reform.

USAID recognizes that corruption remains a significant impediment to the full and effective transition of ENI countries to market economies and participatory democracies. Many aspects of the problem, such as trafficking in women, are regional in nature and, therefore, demand regional solutions. Because of some basic commonalities in the nature of corruption wherever it occurs, countries can benefit from the experiences of others. Whether they are sharing data collection and analysis techniques, anti-corruption institution building techniques, or law enforcement strategies, cross-border and transregional collaboration have the potential to provide significant benefits. In recognition of the complexity of the problem and the potential gains from collaboration, USAID's ENI Bureau has established an Anti-Corruption Working Group, whose role is to provide the regional coordination, conceptual development, and inter-agency liaison work that an effective effort to combat corruption requires. A major part of the Bureau program will involve transregional activities that will provide opportunities for the countries of Central and Eastern Europe and those of the former Soviet Union to learn from each other and to share experiences. These will include convening a donor coordination working group, sponsoring regional workshops that will serve as a transregional forum to examine the problem and its solutions, and information dissemination among all the countries of ENI to facilitate corruption fighting strategies.

ngo program evaluations

Question. The Committee requests that AID provide: b. copies of independent evaluations that have been conducted of AID's major NGO support initiatives in Central Europe and the NIS since 1995 (including Counterparts, DemNet, Save the Children, and other major initiatives);

Answer. USAID has conducted independent evaluations of numerous NGO

Programs in Central Europe and the NIS. Attached please find copies of the following evaluations:

Central Europe Programs:

Audit Evaluation and Project Support Fund--Independent Mid-Term Evaluation of the Democracy Network Program (Bulgaria)

The Regional Components of the Democracy Network Program--Evaluation of Performance and Potential Report

A Mid Term Evaluation of the Democracy Network Project in the Baltics

NIS Programs:

Civic Initiatives Program for Democratic and Economic Reform in Russia (CIP)--Mid-Term Evaluation Final Report

Participatory Evaluation of the Counterpart Consortium Cooperative Agreement

Evaluation Report of the NGO Training and Resource Center (NGOC), Yerevan, Armenia, A Project of the Armenia Assembly of America

[Clerks note.--These reports are available in the Subcommittee.]

cash grants

Question. Over the years Congress and the Administration collectively have reduced the amount of foreign assistance that is provided as cash grants to governments. There are a few exceptions; balance of payments support for countries emerging from civil wars or other conflicts, or assistance specifically designed to provide a bridge to economic self-sufficiency.

Within the funds for development assistance, funds are not authorized as cash grants except to countries in Sub-Saharan Africa. These cash grants are not provided for projects, as are the grants to the International Fund for Ireland or for our Bosnia program. They are used to support government operations or to pay off loans to multilateral development banks.

The concept is to reward governments for good policy in the areas of population control, education, health systems, etc.

However, hasn't it been proven over and over again that cash grants to governments are a dead end, since they become an entitlement; they reinforce dependency on foreign aid; and they assist the least efficient, least responsive, least free market-driven institutions in Africa? Why would we want to provide \$53.5 million in cash grants to African governments in 1999. Do you intend to use Child Survival money for any of these grants?

Answer. The issue of project versus program aid (of which cash grants are a prime example) is a long-standing one. Each form of assistance has advantages and disadvantages. USAID knows of no credible analysis that demonstrates that cash grants or other forms of program aid are inherently ineffective, or inherently effective. Nor does USAID know of any analysis that establishes that one form of aid (e.g., project aid) is inherently superior to another (e.g., program aid).

On the other hand, there is widespread acceptance throughout the world, gained from practical experience, that policies, institutions, and sound investments in human resources and infrastructure are critical to development success, because they create the enabling environment that allows the private sector to grow and thrive. Inevitably, it is largely public sector performance that determines the quality of policies, institutions, and investments in vital public services such as basic education and health. Therefore, most aid, in one way or another, aims to improve public sector performance.

At the same time, there is mounting evidence that sound policies and institutions are critical to the effectiveness of aid, both project aid and program aid. Aid that helps developing countries improve policies, strengthen institutions, and undertake sound investments in human resources is likely to make a substantial contribution to successful development--today and in the future.

Decisions about USAID's non-project assistance (NPA) programs in sub-Saharan Africa are not based on rewards or incentives for good policies, but to help governments already demonstrably committed to policy reform to overcome the short-term budgetary gaps that limit effective policy implementation. NPA is designed and provided in ways that support improved policies, strengthen institutional capacity, and avoid aid dependency. NPA enhances African capacity to lead and manage Africa's development; strengthens the policy and institutional framework for systemic change and reform of entire sectors, such as health, education, and agriculture; and thereby achieves improved sector performance and sustained results. It is provided only to the best performing African governments (those with more efficient, market-oriented, policies, such as freely convertible foreign exchange regimes), all with the aim of increasing sustainability and reducing aid dependency.

USAID expects NPA activities in Africa covering basic education and health to have major positive systemic effects in terms of improved child survival, resulting in reduced aid dependency and increased sustainability. Therefore, the Agency will consider using some Child Survival resources, as appropriate, for NPA that helps accomplish crucial systemic improvements leading to self-sustaining increases in child survival rates.

Questions for the Record Submitted by Mr. Kingston

corruption

Question. I am very interested in your efforts to help increase respect the human rights, to strengthen rule of law, and to strengthen institutions that are critical to success in these areas in developing countries. I would like to ask several questions relating to this general goal:

What accomplishments/progress has been made since last year in the former Soviet Union to help reduce corruption within governmental, judicial and business sectors? How has U.S. assistance played a role in that? How is that measured?

Answer. Reducing crime and corruption in the countries of the former Soviet Union is a serious priority for USAID. During the last year USAID has engaged in policy dialogue related to a broad range of anti-corruption issues in a number of countries, including Russia, Ukraine, Bulgaria, Albania and Georgia. This has resulted in increased support to the judiciary and to in-country anti-corruption NGOs, such as Transparency International, in several of these countries. Additional anti-corruption program related to issues such as regulatory reform, public procurement and ethics reform have also been launched or are currently under consideration in these countries. Dialogue on a range of related issues is also underway.

In addition, during this time-frame USAID has also established a close partnership with the World Bank and the OECD in this area. Through joint programs with our partners, countries throughout the region will be offered technical assistance and international comparative information. While many of these efforts are long-term

undertakings that make it difficult to measure short-term success, already USAID assistance in Ukraine helped push through legislation needed to undertake regulatory reform.

Measuring success on anti-corruption reforms related to institutions, such as the judiciary, will necessarily have to be done over a several year period. Ultimately, successes on this front will be measured, in large part, by the number of property disputes resolved by the courts in a timely, fair and effective manner. However, it may be possible to measure success on certain micro-economic reforms, such as streamlined licensing procedures, more quickly. In this case, success will be measured, in large part, by the amount of time and money saved by entrepreneurs and the business community as a result of less government regulation.

us programs to strengthen rule of law

Question. I understand that one of USAID's goals in the Palestinian areas of the West Bank and Gaza is to help build up institutions of democracy (such as the legislature) and strengthen their legitimacy in an effort to combat corruption and cronyism, and increase governmental accountability. Can you describe this program (if my understanding is correct), how it is being implemented, what your expectations are, and its results.

Answer. One of USAID's objectives in the West Bank and GAZA is to support more responsive and accountable governance through four inter-related components: (1) Increasing the participation of civil society organizations in public decision-making and government oversight; (2) enhancing the capability of the recently elected Palestinian Legislative Council to perform its legislative, oversight and representative functions; (3) improving the executive's legislative and public policy capacity through the development of a transparent and consultative policy-making process; and (4) establishing the foundation for decentralized local government. Programs are underway for the first three components; local government programs are currently being designed.

Civil Society: USAID leads other donors in supporting the development of an active civil society, and in increasing citizen participation, through civil society organizations, in the development of responsive public sector policies and laws. Results to date include: Over 30,000 Palestinians participated in civic education programs; 4,000 citizens attended town hall meetings with legislative and executive representatives to express their opinions; a citizen's rights center established and has addressed more than 100 citizen complaints; information disseminated on draft laws and governance issues; civil society leaders trained on policy analysis; and news production skills of independent television broadcasters have been strengthened.

Legislative Council: USAID's support is critical in assisting the Legislative Council play a strong role in overseeing and reviewing executive actions and in fulfilling its legislative function. With USAID's support, the Council has made substantive changes in the executive's budget which were accepted by the executive; modified the majority of laws drafted by the executive; instituted a regular ``question time'' for government ministers; addressed allegations of government corruption and mismanagement through its own investigations and reports; established a parliamentary research unit that provides the Council objective technical analysis of draft legislation and policy issues; developed record-keeping procedures; drafted action plans to build up executive oversight skills and; trained legal and committee staff.

USAID has also helped the Council by providing technical assistance for drafting the constitution and reviewing the executive budget and; drafting manuals on constituency relations.

Executive: USAID's support is enhancing the transparency, quality and consultative nature of the overall policy and legislative process within the executive, and is contributing to the creation of a uniform and updated legal framework. Procedures for the development and review of legislation within the executive have been drafted and are being tested, and a new unit has been established to review the technical quality of draft legislation.

USAID's programs are implemented through competitively selected U.S. contractors, U.S. and Palestinian grantees, and an interagency agreement with USIS.

usaid indicators--rule of law and human rights

Question. I am concerned about the indicators USAID is using to measure success/results in all of its worldwide programs. Here I'd like to ask about those intended to strengthen rule of law and human rights. For example, on page 97 of the Congressional Presentation, the indicators do not seem to reflect the purpose of the program funding or substantively evaluate the advancement of our goals in this area. While the purpose is to help legal systems operate more effectively to embody democratic principles and protect human rights, the indicators only evaluate these goals by noting the number of countries we try to help improve judicial administration and access.

These two factors themselves are not only inadequate to evaluate the purpose, but they only address the number of countries we try to assist. Can you explain how the Agency can evaluate its progress toward these goals based solely on the number of countries we target using only two ambiguous frames of reference?

Answer. Generally, indicators are proxy measures of the results we seek to achieve. Some are better proxies than others, and our choice of indicators is limited by several factors, including the cost of collecting data.

At the Agency level, as reflected in our Strategic Plan and Annual Performance Plan for FY 1999, we are using the Freedom House Index to assess progress in political rights and civil liberties which cover important rule of law and human rights issues. At the country level, individual missions with rule of law programs are using more specific indicators to assess progress against the particular objectives they have established. These indicators might include the time it takes to reach judgments in different types of cases or a measure of the confidence citizens have in judicial processes.

However, to make the best available expertise available to our missions for both research and program management we have established a series of central programs which support the efforts of our field missions to achieve results in a number of areas including rule of law and human rights. The worldwide program to which your question refers is one of these support programs. It does contribute to improved legal systems, but the direct impact of its assistance is captured in the reporting done by the field missions which it helps support. What we are trying to capture in this program description, therefore, is how effective this central program is in supporting the efforts of our field missions to achieve their objectives. We do not yet have indicators which capture this contribution effectively. We are aware of the problem; it is a difficult one. We have offered a proxy measure, number of countries, which assesses field demand for the program's services, a rough assessment of its perceived value to the field

missions in achieving their results.

rule of law

Question. What is your evaluation of the effectiveness of the program to improve judicial function, including by implementation of computerized case tracking system developed with USAID assistance in Ecuador described on page 56 of Annex 4 of the CP? What else has USAID done to assist Ecuador to effectively implement laws protecting rule of law and due process? What problems remain? How can we address these?

Background

Answer. The present Ecuadorian situation is an extremely difficult one. Most observers agree that no rule of law culture exists in the sense that the political elite, by and large, do not accept the principle that for a credible justice system it is necessary that members of their class should be prosecuted and sentenced if they violate the law and their public trust. Ecuador is also living in a moment of political transition, marked by the adoption of Constitutional reforms that will redefine state institutions. Some of these reforms are directly related to the administration of justice, and as a result, the judicial apparatus will have to face a period of transition and adjustment which could impact the reform process.

In addition, there is a growing interest on the part of civil society and some circles in government to demand, and participate in the process of, reform. USAID is working with Civil Society Organizations (CSOs) in order to promote their participation as key actors in the reform process and has been able to achieve significant progress in developing these activities.

General activities

Overall progress of the activities met Mission expectations. Partner organizations active in the justice sector are Ecuadorian Non-Governmental Organizations (NGOs)--Corporacion Latinoamericana para el Desarrollo (CLD) Centro Sobre Derecho y Sociedad (CIDES), and Centro Ecuatoriano para la Promocion y Accion de la Mujer (CEPAM)--and the GOE's ProJusticia. To date these organizations have:

Greatly increased their service to a wider universe of individual beneficiaries, i.e., Alternative Dispute Resolution (ADR) and legal services to indigenous communities and legal education and services to women.

Improved their capacity and extended their efforts to obtain support from outside sources. All of them are seeking funding from World Bank and Interamerican Development Bank (IDB) judicial reform projects, and they have created strategic alliances with universities and other entities.

Promoted formulation and enactment of important legislation, i.e., Arbitration and Mediation Law (enacted), National Judiciary Council (enacted), draft of the new Criminal Procedures Code (in Congress), Constitutional Tribunal Law (enacted), Ombudsman Law--Defensor del Pueblo (enacted), Family Courts Law (enacted), and guarantee of constitutional rights--i.e., Amparo (enacted).

Computerized case tracking system (Prisoner Data Base)

The data base is providing accurate information which assists defense attorneys and the judicial branch to monitor the status of detained individuals. The data base has approximately 9000 cases of prisoners who have not been sentenced. (A recently approved drug law will release approximately 2500 prisoners.) Nonetheless, the system has helped in improving the average time an inmate is held without a sentence. (In Guayaquil, the average in 1994-1995 was seven years, now it is three years. In Quito, the average is now less than two years).

Higher court judges use the system to monitor the performance of lower courts, identifying those that are a bottleneck during the sentencing stage. Once these courts are identified, they receive a warning; if they do not correct the situation, they are then sanctioned. At this time, some judges in Quito, Guayaquil, Santa Rosa en El Oro, Bahia and Otavalo are being sanctioned (with suspension or a fine) in accordance with Article 71 of the Organic Law of the Judiciary. Most of the prisoners are awaiting sentencing for crimes against property or for drug-related crimes.

USAID assistance to effectively implement laws protecting rule of law and due process

The Constitution is presently being revised by the National Assembly. USAID partners are providing technical assistance and are monitoring the process to ensure that Assembly members consider the following issues: internationally accepted due process standards, gender issues, indigenous communities' concerns, and human rights protection. Some of the proposed constitutional changes that will directly affect the judicial system are specified below:

Criminal procedures will become accusatory in nature.

Due process principles will be clearly defined.\1\

\1\ The present Constitution limits these principles to criminal cases only.

All legal proceedings (criminal and civil) will be oral.

The Constitutional Tribunal will be strengthened and professionalized.

Constitutional Guarantees will be clarified, including a redefinition of Habeas Corpus and Habeas Data, and introduction of Amparo.

Problems that remain--and what can be done

Despite these initial efforts, additional reforms and implementing legislation are necessary to complete modernization of the judicial system. However, some important actors do not recognize these needs, and thus we must also increase awareness among practitioners.

ProJusticia: USAID is considering the expansion of its strategy to encourage broader-based CSO participation. ProJusticia will play a leading role in the development and strengthening of NGO networks and linking them to government justice institutions. USAID will provide technical assistance to conduct activities which would allow NGOs to organize their work and develop network connections to achieve collective empowerment.\2\

\2\ The media has demonstrated an interest in justice reform. According to CLD's tracking system, in 1992 there were only 450 articles related to the judicial reform per year. Presently, approximately 8000 articles are written per year. Journalists interviewed believe the progress is due to continuous pressure from CSO.

Criminal Procedures Code: This draft law is presently in Congress awaiting debate (presented on Dec. 10, 1997). USAID will be working to promote the passage and implementation of this proposed new Code. Under current law, the judiciary manages the investigation stage; the proposed new Code would establish a strong independent prosecutor's office. If enacted, the implementation of the new Code would require consensus building, further technical studies, work with affected

agencies, planning, and an analysis of costs.

Organic Law of the Public Ministry: Has to be revamped in order to include all the aspects they will oversee by assuming the leadership position in the accusatory system. USAID will assist by providing technical assistance.

Communication Strategy: Priorities and practical steps to achieve judicial reform need to be imparted to the public and shared with donors in order to gain support. Those who will have to implement the reforms (attorneys, judicial workers, judges, CSO, GOE, academia, etc.) must be included both as targets of the awareness campaigns and in the process of planning for the implementation.

Question. What steps does USAID take to insure that its ``Good Governance'' (518-Sp03) program is consistent with the ``Civil Society Strengthening'' (518-SO03) program? In other words, how do you insure that the beneficiary country is able to prosecute crime with our assistance more effectively while at the same time maintaining proper respect for the legal process (also with our assistance) when this area is also recognized as being very problematic?

Answer. USAID/Ecuador is taking steps to ensure that the Good Governance Special Objective (SpO-3) and the Civil Society Strengthening Strategic Objective (SO-3) are consistent, i.e., that Ecuador is better able to prosecute crime while maintaining respect for due process.

The content of the respective programs is the primary measure. USAID/Ecuador supports some activities which will improve the capability of the GOE to prosecute corruption and at the same time funds other activities which promote respect for due process and respect for human rights.

For example, under the Good Governance Special Objective (SpO-3), USAID/Ecuador with the GOE is designing a program which will establish a new pilot prosecutorial unit specializing in investigation and prosecution of corruption cases, particularly tax and customs evasion, misuse of public funds, and kickbacks in public contracting. Training provided under this activity will also emphasize the need to respect due process and human rights in carrying out investigations and in prosecuting cases. When operational, this unit will increase the number of corruption cases prosecuted. The unit will thus help Ecuador lessen the impunity of corrupt officials which so undermines public confidence in civilian democratic government. Another example is that Ecuador's congress is now considering a law developed with USAID technical assistance which would criminalize customs evasion for the first time.

Simultaneously, under the Strengthening Civil Society Strategic Objective (SO-3), USAID/Ecuador supports initiatives which strengthen the rights of accused persons. For example, a USAID-funded local nongovernmental organization (NGO) has successfully engineered passage of a new ``amparo'' law which gives prisoners a legal remedy when their constitutional rights are violated. This same NGO has also prepared and promoted a proposed new code of criminal procedure which, when approved and implemented, will give accused prisoners the right to an oral hearing in which an accused can confront his or her accusers. Finally as noted in the answer to the companion question, USAID/Ecuador funded the development of a prisoner data base system which enables supervisory court officials to monitor the status of the cases of every person incarcerated in Ecuador and force judges to move languishing cases.

A second step for helping ensure consistency between the SpO-3 and SO-3 is that the same USAID/Ecuador officer serves as team leader for

both objectives. Under this officer's guidance, both the SpO-3 and SO-3 teams design and implement each activity with a view toward harmonizing USAID's efforts to assist Ecuador in promoting a more effective, fairer, and more equitable administration of justice for all its people.

Question. What else has USAID done to assist Latin American countries to effectively implement laws protection rule of law and due process? What problems remain? How can we address these?

Answer. One of USAID's overall program objectives is to encourage respect for rule and democratic development throughout the hemisphere. Our programs focus on criminal justice systems, increase efficacy and efficiency of basic justice institutions (i.e., courts, prosecutors, public defense, police, private bar associations, and advocacy groups); and increase access to justice for all citizens.

Our programs achieve these objectives by supporting: law reform, including code reforms; development of professional staff, training and on-site technical assistance; administrative modernization of courts and other institutions; judicial independence, separate budgets for the judicial branch, career ladders for judges, and selection of judges on merit; and development of reform constituencies inside and outside of government.

USAID has major administration of justice (AOJ) and rule of law programs operating in El Salvador, Guatemala, Colombia, Haiti, Bolivia, Honduras, Dominican Republic, and Nicaragua. There are smaller programs in Peru, Mexico, Ecuador, Brazil, Paraguay, and Guyana. USAID's AOJ and rule of law programs in Panama, Chile, Argentina, Venezuela, the Eastern Caribbean, and Costa Rica are completed.

Over the years, USAID has learned that: AOJ programs are long-term and need sustained financial and human resources; programs need political commitment, which requires policy dialogue, and working with national commissions and advocacy groups to build that commitment when it does not already exist; reform should be addressed on an integrated basis; independence of the judiciary needs to be preserved, and, if it does not exist, it needs to be established; programs require sustained technical assistance, training, and on-site mentoring; the full range of AOJ and rule of law components are critical for transitions from war to peace; judges are key to sustainability of reforms.

partnership for freedom

Question. As I expressed last year, I am supportive of your decision to begin to shift the focus on our aid to the New Independent States as represented by the new Partnership for Freedom. How far have you gone this year in implementing this transition?

Answer. The Partnership for Freedom (PFF) was initiated on a pilot basis last summer in Russia with the start of the first Regional Investment Initiative (RII) in Novgorod. Strategic emphasis is on trade & investment and democracy, with a tactical emphasis on partnership relationships among a wide range of U.S. and indigenous grassroots organizations--businesses, universities, hospitals, NGOs, professional associations. Two other such RII sites have been initiated in 1998.

Also in Russia, the PFF is funding the Presidential Management Training Initiative, PMTI. This program will have a major impact on business management skills through partnerships between U.S. and Russian business schools, expanded university scholarships, business internships and business training.

In Ukraine, major PFF efforts include expanded small and micro business credit, expanded health and energy partnerships. Support for development of loans by International Financial Institutions will

facilitate major lending which is important to economic growth prospects.

Throughout the NIS, USAID has supported 44 medical partnerships and we are reforming health care processes to improve care delivery, patient outcomes, and consumer choice.

In FY 1999, we are requesting an increase in FREEDOM Support Act funds of \$155 million above the FY 1998 level to:

Support the Partnership for Freedom at the level necessary to achieve its objectives in Russia and to expand it across the NIS. We expect to expand the Regional Investment Initiative to at least four sites in Russia, and to carry this concept into other countries.

The PMTI concept will expand to other countries.

Endowment mechanisms will be used to create a long term ability to continue support of democracy, civil society and nongovernmental entities.

In Central Asia, PFF programs will be geared to elimination of trade impediments. Other key areas include a proposed partnership to establish an oil spill response network for the Caspian Sea and the development of environmental policies to address the potential effects of Caspian oil and gas development.

In the Caucasus, a variety of PFF partnerships will receive funding including medical, power utilities, and agriculture partnerships, as well as expanded funding for small and medium enterprises.

Throughout the region, USAID is continuing to expand the medical partnerships program beyond individual institutions to address systemic health issues, such as modernizing medical and nursing curricula, health management training, work force planning, infection control, and health promotion.

The following figures show the percentage of PFF-related obligations as a share of all obligations planned for the two fiscal years. (These percentages reflect only that part of the FREEDOM Support Act that is managed by USAID.)

	FY 1998	FY 1999
Total.....	54	70
Russia.....	96	98
Ukraine.....	72	78
Central Asia.....	59	76
Caucasus.....	30	45

privatization in the nis

Question. I also commend your effort to help privatize 26,000 state-owned enterprises in the NIS. Is this a result of your effort to reform the legal system or a program specifically targeted at privatization? How do most of these transitions of ownership take place? Are they corporatized through the stock market? How do we seek to avoid inappropriate transfers of ownership based on political corruption, cronyism, or pressure from organized crime?

Answer. Privatization is not merely a goal in itself, it is a part of our effort to bring about market reform and thus create a market economy by expanding private ownership. The principal components of market reform are: (1) private ownership, (2) functioning markets and banks, (3) a fair and conducive business environment, and (4) property rights and rule of law.

Privatization contributes to systemic change and is interwoven with legal reform in several areas, e.g., the creation of new legal concepts surrounding property rights and responsibilities, the creation of financial markets, bankruptcy laws, and accounting reform.

Most of the transfers of state owned assets occur through mass privatization programs typically involving auction systems. The larger enterprise transfers of ownership often involve either negotiated sales following open or short list tenders, public placements through a market intermediary like a stock market, or a combination of these and other mechanisms.

Corporatization precedes the ownership transfer as the enterprise must be made a defined legal entity before ownership can be transferred. The ownership record (e.g., stock certificate) may eventually be transferred through a stock market. The reason for this is that typically initial transfers, if not achieved through private placements, are accomplished through voucher auction mechanisms, allocations and/or sales to employees or pension funds or similar mechanisms. Each of these, in turn, looks to a stock market for subsequent liquidity. There are instances where corporatization does not occur at all, such as when assets owned by a government enterprise are sold to another legal entity, which may be a corporation, partnership, or sole proprietorship.

To minimize outside influences on transfers of privatizing assets USAID demands that asset transfers take place using transparent and open rules (e.g., open auctions, tenders under internationally accepted rules, etc). Also, legal systems advocated by USAID institute regulations and norms that require openness and transparency in privatization and procurement related activity and, thus, reduce the possibilities for political corruption, cronyism, and criminal manipulation of transfers.

population: family planning saves lives

Question. You stated in your testimony that hundreds of thousands of women and children are alive because of AID's family planning programs. Please define the link between family planning and the lives of hundreds of thousands of women and children. Would that many people really not be alive today without family planning?

Answer. Without family planning programs, it is estimated that 635,000 women would die of causes related to pregnancy and childbirth--50,000 more than the 585,000 who currently do die each year of maternal causes. Similarly, without family planning, 7.6 million infants would die annually--600,000 more than the current total of 7 million who do die.

Use of family planning in the developing world (excluding China), estimated at 36% of married women of reproductive age, is about half of developed country levels. An additional 600,000 infant deaths and 50,000 maternal deaths could be prevented each year if family planning use were doubled to developed country levels, reducing global mortality totals to 6.4 million infant deaths and 535,000 maternal deaths each year. Of course, the cumulative impacts of family planning programs on infant and maternal mortality are much greater than any single year impact.

Family planning can prevent at least 25 percent of all maternal deaths by allowing women to delay motherhood, prevent unintended pregnancies and unsafe abortions, protect themselves from sexually transmitted infections and HIV/AIDS, and stop childbearing when they have reached their reproductive goals.

Babies born less than two years after their next oldest sibling are

twice as likely to die in the first year of life than those born after an interval of at least two years. Children born to mothers under age 20 are more likely to die before their first birthday--one and one-half times more likely in many countries--than those born to mothers ages 20 to 29. Children born to mothers over age 40 and fourth-born or later children are also more likely to die. Family planning makes important contributions to infant survival by helping women space births at least two years apart, bear children during their healthiest reproductive years, and have only the number of children they want. Through its effects on birth spacing alone, family planning can prevent 25% of these deaths.

child survival account vs. aids funding

Question. Of the \$503 million designated for the child survival account, you propose to use \$121 million to combat AIDS with only \$30 million to use against infectious diseases in general. When looking at the number of people who die or are at a higher degree of risk of contracting AIDS versus infectious diseases in general, it seems that our priorities are reversed. It seems like the funding outlines are disproportionate with the needs in this area. Can you please address this concern?

Answer. Of the approximately 55 million individuals worldwide who die each year, about one-third die from infectious diseases. Most of these infectious disease deaths occur in the first five years of life. Of the \$503 million designated for the Child Survival Account, \$121 million is allocated for HIV/AIDS and another \$150 million for interventions to reduce childhood infectious diseases. This includes funding to reduce respiratory infections, immunizations for infectious diseases, diarrheal disease control, and childhood malaria control. The \$30 million referred to in the question is for ``additional'' infectious disease interventions. These encompass increased emphasis on malaria, expanding tuberculosis control, establishing global infectious disease surveillance systems, and dealing with the ever growing problem of antimicrobial drug resistance.

It is important to note that the hard-won gains in infant and child mortality in Africa are being reversed by the HIV/AIDS pandemic. HIV/AIDS has doubled infant mortality and quadrupled under-five mortality in the most severely affected countries in east Africa.

In adults 15 to 50 years of age, the two leading causes of death that are attributable to infectious diseases are tuberculosis (approximately 3 million deaths per year) and AIDS (2.3 million deaths per year). In fact, in Africa, AIDS is the single leading cause of death in adults under 60 years of age, and contributes to about 10% of the tuberculosis deaths. The number of AIDS deaths per year is steadily increasing and in Africa will surpass the number of deaths from TB within 3 to 4 years. We estimate that by the year 2002, the annual mortality from AIDS will be nearly 5 million.

Prevention efforts of the HIV/AIDS pandemic in the developing world are woefully underfunded. The \$121 million per year that is spent on the global AIDS epidemic must cover some 75 countries in order to try to prevent over 6 million new infections per year. Half of these new infections occur in women. In addition, 750,000 infants are infected with HIV per year through mother to infant transmission. In comparison, the United States spends \$700 million annually for HIV prevention in the U.S. where about 45,000 new infections occur per year.

social structure impact of fathers or male involvement

Question. I agree with you that it is important to address social structure in developing countries as a means to help prevent spread of

disease, etc. One of these ways you choose to exemplify this point, however, raises serious concerns to me about the predisposed ``mindset'' under which we may go about this. Your testimony states that ``research shows that the children of a mother who has even a single year of education has a 9 percentage percent better chance to live to the age of five''. I certainly do not question the importance of education to successful families, but I am shocked that the study, with its implied importance to the Agency's approach to improving ``social conditions'', would not also address the impact of fathers or male involvement. I understand the reality that many or even most children are not blessed with two parents, but why then must the parent's gender be an issue? It seems we should be pointing out the importance of both mothers and fathers to children's well being.

Answer. USAID fully agrees that both parents are important to the well being of children. The point which was made on the importance of educating women and the impact this has on the welfare of children was not intended to suggest a diminished role for the male parent. The purpose was rather to emphasize the need to give women an opportunity for a complete and high quality education which often in the third world is afforded only to men. Hence the research cited demonstrates not a particular bent toward women but rather one that addresses the positive impact on children resulting from reducing the inequality of educational opportunity for girl children in many nations.

Questions for the Record Submitted by Congresswoman Pelosi

democratic republic of congo

Question. USAID recently notified the Committee of its intention to develop and expand its aid program in the Democratic Republic of the Congo. Also, the Administration is considering the use of a Section 614 waiver with respect to the restrictions in the FY 1998 bill that prohibit aid to the central government until the President certifies that they are cooperating fully with the UN investigation of human rights abuses.

(a) Explain your strategy for working with the central government, why this proposed project does not violate the aid restrictions, and the status of the Congo's cooperation with the UN investigation.

(b) What is the status of the Administration's intention regarding the 614 waiver with respect to the Congo?

(c) What do you envision in dollar terms for aid to DROC and how does it fit with USAID's new strategy in Africa?

Answer. (a) The USAID strategy for working with the central government is one of cautious engagement, consistent with overall U.S. Government policy for the DROC. Due to the legislative restrictions on aid to the central government, we are not providing assistance to the central government at this time. However, we do believe that it is in the interests of the United States to look for targets of opportunity to work with reformist elements of the DROC government now to attempt to improve the quality of life for the people of the DROC. We will consult closely with the Congress on how best to move forward with assistance to the government in critical areas, such as democracy promotion and to provide technical assistance for key sectors such as health, justice and/or finance. We also have been working with the World Bank to design a Trust Fund that will provide assistance complementary to ours, through the government and NGOs in social sectors such as health and education, and to support employment opportunities through small public works.

The UN has suspended its human rights investigation. We are disappointed with the suspension and hope that the current problems that led to the suspension can be resolved quickly and that the team will be able to resume its work.

(b) The Administration intends to work closely with Congress to look for the most appropriate means to provide targeted aid to the central government of the DROC. We intend to begin consulting in April with key Congressional committees.

(c) As Secretary Albright announced in December, our intention is to work with Congress to provide \$35-\$40 million in bilateral aid and to contribute \$10 million to the World Bank Trust Fund for the Congo in FY 1998. We envision providing a similar amount of bilateral aid in FY 99. Our assistance strategy for the Congo potentially will focus on democracy/governance, health/child survival, private enterprise development and the environment. All of these areas are consistent with USAID's overall strategy for Africa. Democracy/governance and promotion of private enterprise will be especially important for laying the basis for broad-based economic growth in the DROC.

fixing the new management system

Question. AID is currently assessing the impacts of the failure of the new management system. Can you comment on how much will be required to make the current system workable, and what confidence you have that the current effort will actually fix the system?

Answer. The recently completed independent assessment conducted by IBM and Coopers & Lybrand under the oversight of the GSA estimated the USAID would have to spend up to \$20 million to fix the system. We estimate that this cost will be spent within the next three years. This does not include day-to-day NMS operation costs. It is essentially a rough order estimate of the costs to replace the NMS financial management system (i.e. AWACS) with a commercial off-the-shelf package and correct the other deficiencies in NMS. Further analysis will be required to refine those costs.

In consultation with OMB, USAID has concluded that there is substantial cost, schedule and organizational risk in trying to implement a commercial off-the-shelf accounting system by October 1, 1999. We need to lower our risks and examine alternatives that may also include longer range plans for using a combination of out-sourcing and cross-servicing and commercial off-the-shelf packages to meet our financial management requirements.

Coopers & Lybrand is assisting USAID in financial management business process improvement, requirements analysis, and an investment analysis on out-sourcing and cross-servicing and commercial off-the-shelf options for financial management processes. They will assist us in simplifying our processes and make it easier to implement the selected options. This work will be finished in October 1998. Also, the prime contractor, when selected and mobilized, will perform a similar effort on the Operations, Budget and A&A components of NMS.

Once Coopers & Lybrand's work is completed and a prime contractor is selected and completes its analysis, we will be in a better position to provide a detailed cost and schedule for fixing NMS.

Question. When this effort is finished what advantages will the new system give AID from an operational standpoint?

Answer. When this effort is finished, USAID will have a world-wide integrated accounting system that can provide timely and accurate reporting on its programs in every country and associate costs with results achieved. USAID expects that implementing a commercial off-the-shelf financial management package with minimal customization and

applying best financial practices will reduce the overall life cycle costs of the system, increase the quality of reporting and decision support tools for Agency managers, and provide the essential productivity gains that NMS was originally intended to produce. USAID will be performing an investment analysis on the proposed renovations for the Operations, Budget and A&A portions of NMS, as well to determine if the life cycle costs to repair are less than the life cycle costs to replace components with available commercial off-the-shelf packages where they exist to achieve comparable benefits. A fully integrated suite of administrative and financial application systems will provide the greatest assurance of quality program design and implementation world-wide.

Question. Has the shutdown of the system caused any difficulties with respect to monitoring and or auditing of program funds?

Answer. The documented deficiencies in NMS caused difficulties in meeting some USAID reporting requirements. USAID has had successive years of negative audit reports associated with the precursor financial management systems. Through reengineered processes and NMS, USAID has made significant strides in managing its program resources. Where deficiencies have been identified and effective short-term corrections can be made, they are being implemented. Only the financial management and procurement components of NMS have been shutdown in our 39 overseas missions, which continue to use the program and budget portions of NMS. A legacy financial management system still remains operational in the field and effectively monitors program resources. An on-line procurement system for the field did not exist before NMS and while not having the procurement module operational in the field creates reporting challenges for USAID, our field missions are still able to implement their contracting actions. All four modules of NMS remain fully operational in Washington.

Question. Are you now working cooperatively with AID's inspector general on the fixing of this system? What role does he have in the process?

Answer. The goal of both USAID management and the IG has been to reach consensus on the facts regarding the deficiencies of NMS. Substantial progress has been made on this effort, which is reflected in recent communications issued both by USAID and the IG. The IG continues to fulfill a very useful role in focusing management attention at all levels within USAID on our management control weaknesses and areas in which federal government best practices can be applied to address organizational and process deficiencies.

usaid's climate change initiative

Question. USAID has been given the lead to implement the President's Climate Change Plan for developing countries. \$1 billion will be spent over 5 years in grants and loan guarantees. Can you expand on this initiative and explain how it will address mitigating greenhouse gas emissions and support the efforts of the UN Framework Convention on Climate Change?

Answer. USAID was given the lead on behalf of the Federal Government to implement the President's commitment to assist developing and transition countries reduce the threat of climate change and achieve the goals of the U.N. Framework Convention on Climate Change (UNFCCC). In response to this commitment, USAID, through a highly participatory process that involved technical, regional, and policy experts from throughout the Agency, Federal Government, and private and nongovernmental sectors, has developed the Climate Change Initiative. This Initiative provides a solid framework for assisting developing and

transition countries to build the technical and institutional capacity to make meaningful commitments to reducing emissions of greenhouse gases.

The primary objective of the Initiative is to promote sustainable development that minimizes the associated growth in greenhouse gas emissions and reduces vulnerability to climate change. The Agency is focusing its efforts on ``win-win'' activities--those that simultaneously promote sustainable development while combating climate change. Using the Initiative as a starting point, USAID will strive to integrate climate change into all of the Agency's relevant programs and activities to increase awareness of how development impacts climate change.

Specifically the Initiative will:

Ensure a substantial U.S. Government financial commitment to climate change-related programs in developing and transition nations over the next five years (a minimum of \$750 million in grant assistance); develop credit instruments to leverage \$250 million in ``climate-friendly'' investment in developing and transition countries; foster a broader vision of development assistance that recognizes that reducing the threat of climate change is central to global sustainable development; enhance U.S. leadership of the donor community to work with developing nations to address climate change; and fulfill existing U.S. obligations under the UNFCCC to assist developing nations address their emissions of greenhouse gases.

In addition to the Initiative's main focus on grant assistance and credit authority, USAID will participate in the development of an inter-agency climate change program. USAID will concentrate resources and attention on a set of ``key'' countries and regions selected because of their contribution (and predicted future contribution) to net global greenhouse gas emissions and/or their government's receptivity to taking concrete action. Nine countries and three regions will receive priority: Brazil, Central Africa (Cameroon, the Central African Republic, the Republic of Congo, the Democratic Republic of Congo, Equatorial Guinea and Gabon), Central America (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan), India, Indonesia, Mexico, Philippines, Poland, Russia, South Africa and Ukraine.

Through the Initiative, USAID will highlight several new areas of emphasis including the following:

Quantifying the health and productivity costs associated with local air pollution that fossil fuel combustion generates in an effort to expand the definition of ``win-win'' efforts to decrease greenhouse gas emissions;

Analyzing the specific regional and local vulnerabilities to climate change in order to identify particular areas that USAID should address;

Facilitating private sector transfer of clean energy technology to key countries and regions; a first step in this direction is the promulgation of model ``Global Climate Change Technology Cooperation Agreements'' with key countries;

Reducing the vulnerability of urban populations, property, and infrastructure to the threats posed by climate change;

Enhancing environmental education and outreach to involve non-governmental organizations, the private sector and governments in efforts to promote development while reducing the rate of growth in net greenhouse gas emissions; and

Working with the donor community to more effectively promote development that minimizes the growth in greenhouse gas emissions.

While the commitment of \$1 billion over five years is significant for the U.S. Government, it is a small share of the resources necessary to minimize the threats climate change poses to developing and transition countries. A concerted global effort will be required. The creation of close partnerships with a variety of partners will be a critical to the success of the Global Climate Change Initiative. USAID will work with multilateral and bilateral donors, international organizations, the private sector, and other agencies and departments of the U.S. Government. By intensifying coordination, USAID will multiply the impact of its programs, and increase the pace and durability of reforms in partner nations.

USAID's Initiative, with the exception of the credit provisions, will be funded and staffed using existing authority.

nis funding increase

Question. The FY 1999 request increases aid to the New Independent States from \$770 million to \$925 million. Most of the increase would go to Russia as levels of assistance to other republics has stabilized. What factors warrant this magnitude of increase, and what is the strategy for spending these funds.

Answer. The Administration's request level for FY 1999, 20% above the FY 1998 level, would increase not only Russia programs (by 75%, or about \$95 million), but also programs in the important Central Asian Republics (by about 60%, or \$55 million). Although the FY 1998 level's final outcome is frequently seen as having hit the Russia program the hardest, the lower-than-requested level also impacted Central Asia, which saw a minuscule increase (in FY 1998) compared with the remainder of the New Independent States.

Congress has already recognized the wisdom in continuing assistance to the former Soviet Union. From the FY 1994 peak of \$2.4 billion in assistance in 1994, funds steadily declined each year until this fiscal year when Congress reversed course and increased our funding. Congress recognized both the progress to date and the unmet needs still facing the region. We are asking for an increase in the next fiscal year as well, from our current budget of \$770 million to \$925 million, so that the Partnership for Freedom may succeed and Congressional mandates be fulfilled.

health, population, and environment

Question. The FY 1998 bill called for more resources to be devoted to the areas of health, population, and environment. While I am grateful that some increases for those programs have been increased, more can be done. In the area of women's health in particular USAID has achieved dramatic reductions in abortion rates in areas where family planning and women's health funds have been made available. The programs USAID has in many republics to address these needs are small or just beginning in some cases. What can you tell us about your future plans for family planning and women's health initiatives in the New Independent States.

Answer. In accordance with congressional recommendations and earmarks to reduce reliance on abortion as a fertility control method, USAID will build upon its family planning/women's reproductive health programs in ten countries of the NIS. The Women's Reproductive Health Initiative in the NIS has shown impressive results to date.

The family planning/women's health program in the NIS will continue to focus on three priority areas: policy development, capacity building, and patient and provider education. These will be addressed

through a variety of programmatic initiatives which include: designing a new public information campaign in the Caucasus fashioned after programs in Russia and Ukraine that promote the health benefits and safety of modern contraceptive methods; expanding the number of oblasts with model family planning centers from six to fourteen in Russia; and continuing a \$4 million effort directed at areas affected by Chernobyl in Ukraine to screen and diagnose for breast cancer and treat women afflicted by the disease.

USAID will ensure that women's health-related activities continue to be a priority under the follow-on hospital and healthcare partnerships program. To address the problem of gender-based violence, USAID will continue to coordinate with the Department of State's International Narcotics and Legal Enforcement (INL) to develop a multisectoral approach, involving law enforcement, social workers, NGOs, and health care providers.

As part of a hospital partnership program linking U.S. and NIS facilities, Women's Wellness Centers in seven NIS countries will continue to offer ``one-stop shopping'' consisting of primary care and educational and counseling services. Wellness Centers address a range of psychological issues which affect women's health, including domestic violence, healthy lifestyles, reproductive health, parenting skills and substance abuse prevention.

USAID will also continue to build upon the Health Sector Reform program by supporting health system restructuring in Central Asia and Ukraine in order to expand primary care and integrate services for women and children, including family planning, into independent family group practices and out-patient facilities.

Finally, USAID programs will promote the provision of contraceptives through private sector social marketing initiatives.

republika srpska

Question. As you know, I have been supportive of efforts to ensure that U.S. bilateral and multilateral assistance to Bosnia does not inadvertently redound to the political or economic benefit of persons who have been indicted by the War Crimes Tribunal or those who are protecting them. I am disturbed that last year millions of dollars of U.S. bilateral aid assistance for infrastructure projects in a number of communities in Republika Srpska which local officials have made it comfortable enough for indicted persons that they still feel comfortable enough to walk around openly. (Aid to BOSANSKI SAMAC is best example.) Can you assure us that U.S. assistance will not in the future go to communities in which local officials are failing to meet their obligations to arrest or assist the surrender of indicted persons, and, further, will not go to companies in which indicted persons have financial interests? What mechanisms are in place to ensure that does not happen?

Answer. The program slated for Bosanski Samac was canceled due to the presence of war criminals in the municipality. Communities that openly fail to meet their obligations to arrest or assist the surrender of indicted persons do not and will not receive U.S. assistance.

The mechanisms that have been put in place for the Bosnia Reconstruction Finance Facility program include screening all principal officers of each company that has applied to receive a loan via a formal interagency review prior to the loan disbursement to ensure that no indicted criminals will benefit from the loan or will benefit from the planned assistance. USAID maintains direct control over the loan funds which are disbursed to the recipient through Bosnian agent banks in tranches. The entire lending process is monitored by a hierarchy of

American and Bosnian audit, banking and project management professionals.

vetting bosnia projects

Question. How do you vet projects to ensure that U.S. tax dollars are not going to those who are either indicted themselves or who are protecting the indicted or who are allied with those--specifically Radovan Karadzic or Razko Mladic--who are obstacles to implementation of the Dayton Agreement and threats to U.S. troops and peace?

Answer. USAID consults with all government agencies active in Bosnia prior to deciding on projects to see if they have relevant information concerning the presence and activities of publicly indicted war criminals so as to block them from benefiting from any USG financial or technical assistance or grants. These consultations take place in Bosnia and Washington in addition to meetings with human rights organizations.

yugoslavia sanctions and bosnia assistance

Question. What mechanisms are in place to ensure that when you are working, as USAID is now, with public companies or banks in Republika Srpska that are closely associated with the Milosovic regime in Belgrade, that you are not violating the outer wall of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro)? This is obviously even a greater concern than it had been before given the Milosovic regimes' responsibility for the murder of civilians in Kosovo over the last two weeks.

Answer. USAID has not worked with public companies in the two entities since May 1997, when they were declared ineligible for USAID business loans.

USAID has set up an effective system to ensure that USAID funds do not violate the outer wall of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro). To reinforce its system, USAID is in the process of subjecting each of its agent banks in the Federation and the Republika Srpska to the same agency checks we apply to each of the borrowers; the names of the principal officers of the banks are being submitted to undergo an interagency vetting process to see if there is relevant information concerning the presence and activities of publicly indicted war criminals not only in the Federation and the Republika Srpska but also in the Federal Republic of Yugoslavia (Serbia and Montenegro) so as to block them from benefiting from any USG financial or technical assistance or grants.

proposed decrease for infectious disease funding

Question. As you know there is growing concern among many Americans about the global threats from infectious diseases. Given this and the increasing spread of several diseases, including HIV and tuberculosis, how is it that the administration is proposing to decrease funding for infectious diseases next year? Don't you in fact need more funds in the Child Survival and Infectious Diseases Account, not less?

Answer. I fully agree that child survival and disease programs are extremely important. Our request for FY 1999 is not meant to signal a reduction in the importance we attach to these programs. The very fact that we have requested a separate account, including a separate category for the new disease initiative, demonstrates the importance we give to these programs and activities. We also believe our approach is based on the realization that work to reduce the threat of infectious diseases and to children's survival is integrally linked to, and must be supported by the Agency's efforts in other areas.

Social and economic conditions such as poverty, malnutrition, lack of education, poor sanitation, overcrowding, environmental degradation

and rapid population growth all allow infectious diseases to flourish and spread and have a very detrimental effect on the lives of children. Our efforts in the area of child survival and disease are made all the more effective when these other issues are adequately addressed.

USAID's FY 1999 request, as you point out, does increase funding for a number of sectors that we believe have in the past been underfunded. They address some of the underlying social and economic conditions that impact on health and disease. The funding choices we have made have been very difficult. But, they do not in any way reflect a decision on the part of USAID that child survival and disease activities and programs are of secondary importance. We believe the investments we make in these other areas are critical complements to USAID's work to address infectious diseases and improve child survival.

usaid health research priorities & communication with nih

Question. Can you tell us what areas of research might most benefit USAID's health and development efforts and how the agency has made its priorities clear to NIH?

Answer. Much of NIH's research agenda addresses fundamental research rather than the applied research USAID needs to improve health interventions. However, NIH's fundamental research program provides information on which USAID's applied research can build. Research on the pathogenesis, immunology, and molecular biology of the diseases of major public health importance (diarrheal diseases, acute respiratory infections, HIV/AIDS, tuberculosis, malaria, and malnutrition) feeds directly into USAID's programs.

In addition, there are many areas in which NIH research more directly supports USAID needs. For example, NIH has recently begun a malaria vaccine development program which promises to accelerate progress in this underfunded area. NIH has collaborated with the USAID Malaria Vaccine Development Program for several years by enabling access to NIH contracted vaccine testing facilities; perhaps now, with new funding, NIH can continue this collaboration while requiring lower levels of monetary support from USAID. USAID meets regularly with NIH and other federal agencies through the Federal Malaria Vaccine Coordinating Committee (FMVCC) to discuss this subject.

NIH is also a key player in research trials on mother to child HIV transmission, an area on which we will be meeting to coordinate future activities.

Similar liaison between USAID and NIH occurs in a number of other health areas of the developing world, including anti-microbial resistance and AIDS vaccine development.

reduction of hiv transmission to children

Question. In recent weeks there seemed to emerge a hopeful development regarding the AIDS pandemic, which as you know, continues to spread at an alarming rate. I am referring to the research that seems to demonstrate a new method of reducing perinatal transmission that has potential to cut by 50% the number of children born with HIV in developing nations. Given that hundreds of thousands of children are born with HIV each year this obviously could be a very important breakthrough.

Do you believe that this research is as hopeful as press reports have indicated and if so, how will USAID incorporate this new method into its existing global AIDS efforts?

Answer. The results of the study conducted in Thailand, are an exciting advance in the prevention of mother to child transmission of HIV in developing countries. On March 23, UNAIDS, UNICEF, and WHO held a meeting to review research on mother to child transmission and define

next steps. USAID played a major role in convening this meeting and was an active participant. At present, additional issues need to be addressed in order to implement transmission interventions. These include providing voluntary HIV counseling and testing, strengthening health care infrastructures, and providing safe alternatives to breast-feeding. USAID expects to be involved in pilot projects and will continue its dialogue with UNAIDS, UNICEF, and WHO to coordinate these efforts. At the same time USAID remains committed to its efforts to prevent the sexual transmission of HIV among adults.

Questions for the Record Submitted by Congressman Yates

population effect of funding cut

Question. Family Planning services, health service for women and implementation of population programs are important features to our bill. The opponents of these programs as well intentioned, but is it safe to say that those who oppose international family planning and support a decrease in funding will lead to an increase in unintended pregnancies, abortions, and the deaths of mothers and children?

Answer. Yes, a decrease in funding for international family planning programs will lead to an increase in unintended pregnancies, abortions, and the deaths of mothers and children. In 1996, a consortium of experts produced estimates of the impact of a 35% cut in USAID's population funding. Based on these estimates, each 10 percentage point cut in population funding can be expected to result in approximately 1.1 million additional unwanted pregnancies; 453,000 additional abortions; 532,000 additional unwanted births; 2,000 additional maternal deaths; and 38,000 additional infant deaths.

population: administration position

Question. I have received a number of letters from my constituents and organizations opposed to the state department authorization bill. My read of the conference report is that once again it contains ``Mexico City'' language that bans United States fund to any family planning organization or its grantee that engages overseas in a democratic process that would be protected by the constitution in the United States. This is unacceptable to this side of the family planning debate. What is the Administration's and your position on the authorization conference report?

Answer. In a March 26, 1998 letter to Representative Pelosi, Larry Stein, Assistant to the President and Director for Legislative Affairs stated the Administration position that ``if HR 1757, the Conference Report on State Department Authorization, were presented to the President, he would veto the bill.'' While the bill contains a number of desirable authorities, other foreign policy constraints and reductions in funding authorizations for key programs would undercut the conduct of diplomacy to achieve important goals.

The Administration strongly opposes the conference bill's restrictions on international family planning programs that go far beyond those contained in current law, which already preclude the use of appropriated funds for abortion or abortion-related lobbying. The conference report imposes in statute, limitations on international family planning that were rejected by the Administration when it overturned the so-called Mexico City policy. While the bill allows the President to waive one aspect of those restrictions, it imposes a punitive ceiling on spending for population activities if the waiver is expected. The conference report also imposes a global ``gag'' rule on foreign non-governmental organizations (NGOs) by prohibiting funding

for those NGOs that engage in the democratic process in their own countries and conduct legal advocacy activities with their own funds. The restrictions put in jeopardy funding for the most experienced and qualified family planning and maternal-child health care providers working at the grassroots level to meet the growing demand for family planning and other critical health services in developing countries. If HR 1757 were to become law, the consequences would include an increased number of unintended pregnancies, unsafe abortions, and maternal and child deaths.

The Administration considers HR 1757 unacceptable. A funding cap of \$356 million and sweeping restrictions on free speech make this version as restrictive, if not more so, than previous formulations.

population: effect of metering

Question. What has been the effect of onerous funding formula restrictions, i.e. metering and other restrictions being placed on international family planning funding?

Answer. Over the past three years, USAID's international family planning program has faced a 30 percent cut in funding combined with unprecedented metering of funds under various combinations of delays and incremental monthly allotments. The impacts of metering would have been far worse had it not been for the Presidential Determination and resolutions passed by both Houses of Congress last February that enabled population programs to receive funding in March 1997. The following are some of the impacts of the restrictions.

Freezing or reducing bilateral commitments: In Bolivia and Ukraine, key USAID-funded service delivery activities were reduced or frozen in place because of the delay in funding and monthly metering.

Reducing support for service delivery: Pathfinder and AVSC, worldwide agencies involved in family planning service delivery and the two largest recipients of USAID central funds, have cut back substantially on long-term agreements with host country partners over this period. Access to family planning and other related health services in areas served by these partner institutions have diminished as a result.

Reducing pursuit of contraceptive research leads: The core funds for two key USAID cooperative agreements for contraceptive research, Family Health International and the Population Council, were reduced by approximately 27% and 38% respectively. As a result, the cooperators reduced the number of contraceptive research leads and the number and scope of important studies and publications.

Responding to requests outside the metered funding schedule: The delayed availability and monthly metering of funds has impaired USAID's ability to respond quickly to changing field needs. For example, USAID was unable to take advantage of success and respond to pressing funding needs in Bolivia and Ukraine, where progress on planned family planning activities has been more rapid than anticipated.

Allocating more funds to meet increased management and unit costs: All programs have had to allocate more funds to management of metering, thereby reducing funds available for family planning services. Bulk purchases of commodities, equipment, and materials have been reduced, with attendant higher unit costs for the U.S. government. At AVSC, for example, such costs are estimated to have increased by approximately a quarter of a million dollars last year. For USAID itself, additional administrative costs associated with managing metered funds have exceeded \$1 million.

Overall, the population program has lost a great deal of momentum and has had to struggle to maintain the flow of funding to critical

programs which are providing vitally needed and desired services in developing countries.

c.i.t.e.s. and the ivory trade

Question. I am supportive of USAID's CAMPFIRE program in Zimbabwe. I feel that they have had great success in developing a model for balancing rural empowerment, sustainable development, and wildlife conservation. But I do feel there are some concerns we need to address.

As you may know, I do not support the use of funds appropriated by this committee to be used for any activity which is in contravention to the convention on International Trade in Endangered Species of Flora and Fauna (CITES) or enable or promote the international trade of ivory.

Answer. CAMPFIRE activities do not contravene the terms of the CITES Convention. In June 1997 the member nations of the conference, considering the effective conservation measures taken by Zimbabwe and two other Southern African states to protect the elephant and the robust state of the present elephant population, downlisted elephants from Appendix 1 to Appendix 2 of the convention, allowing limited hunting and limited trade in related products under controlled conditions. It also permitted a one-time sale of the ivory in already-existing stocks to one buyer (Japan) which cannot re-export. This sale can be approved by the CITES Standing Committee after they have determined compliance with a number of conditions. Currently the U.S. is not a member of the Standing Committee. These CITES resolutions do not affect the safeguards against international trade in ivory provided by the U.S. Endangered Species Act, 4(d) (Special Rule for Threatened African Elephants).

duration of campfire funding

Question. With respect to the CAMPFIRE program in Zimbabwe, it is my understanding that FY 98 was to be the tenth and final year of USAID funding for that program. Is that the case?

Answer. The Natural Resources Management project, of which CAMPFIRE is a part, was begun in FY 94 and FY 98 is the last year of obligation. However, an evaluation is currently under way to assess, among other things, future USAID support for CAMPFIRE and the options for diversification of the program after U.S. funding ends.

extension of campfire program

Question. Has there been a suggestion or proposal to extend the term of USAID contributions to the [CAMPFIRE] program?

Answer. Yes, such a proposal has been made. Currently an appraisal of CAMPFIRE is under way; its findings will help determine the nature of further support to CAMPFIRE and whether diversification or other changes are called for.

recommendation for campfire extension?

Question. If so, who suggested it and what is USAID's position in regard to a possible extension?

Answer. The proposal originated with the CAMPFIRE Collaborative Group. This Group comprises representatives of: member villages; Rural District Councils having member villages; the Department of National Parks and Wildlife; the Ministry of Local Government; Zimbabwe Trust (ZIMTRUST); the Centre for Applied Social Sciences; the World Wide Fund for Nature; and the Africa Resources Trust. USAID is reviewing their proposal at this time.

distancing from trophy hunting programs

Question. I understand that CAMPFIRE is a good example of a sustainable development program based on the natural resources of an indigenous area. Yet, the perception is that we are funding the trophy

hunting of elephants and dealing in the international sale of ivory. Although my investigation of this program leads me to the conclusion that we are not doing such horrible acts, unfortunately perception is nine-tenths of reality. With this in mind, what steps, if any, has USAID taken to lessen its involvement in trophy hunting based foreign assistance programs? Have you tried to distance yourself from this perception?

Answer. USAID does not, and will not, directly finance hunting activities. An extensive correspondence with the U.S. and Zimbabwean publics has gone on for the past two years in an effort to correct the misstatements which have been made about CAMPFIRE. It is our hope that a steady policy of correcting these misstatements will bear fruit.

trophy hunting programs in other countries

Question. Is USAID currently funding similar programs in other countries?

Answer. USAID is funding community-based natural resources management programs in a number of countries worldwide.

programs not involving hunting

Question. Do you intend [to] sponsor programs that do not involve the hunting of animals, endangered or otherwise?

Answer. As you know, USAID does not finance hunting programs. We--and many well respected mainstream environmental organizations--support community based efforts to manage natural resources, including wildlife. Other activities include forestry, indigenous plants, and eco-tourism.

oversight over implementing organizations

Question. In a September, 1997 letter from Acting Administrator Jill Buckley to Senator Boxer, Ms. Buckley writes: ``. . . We began taking steps to exercise greater oversight over the organizations that implement the program [referring to CAMPFIRE]. These and other steps we have taken will ensure that the funds obligated to the program will only be used to maximize the benefits to rural people while strengthening natural resources management in Zimbabwe.'' What ``steps'' has USAID taken in this regard?

Answer. We share your concern over maximizing the impact of this highly successful program on the rural poor in Zimbabwe. In response to concerns raised last year, USAID eliminated funding for activities not directly related to the rural areas, such as international outreach efforts.

USAID has also changed the language to the Zimbabwe Trust grant restricting program-funded international activities and participation in international events, and imposing greater USAID control over program-funded international participation.

promised report on campfire

Question. The letter also states, ``We will provide a report to oversight committee members no later than March, 1998, describing how funds are to be used and alternatives to trophy hunting as a means for generating income for CAMPFIRE districts.'' I have not seen that report. I assume this Subcommittee is considered to have oversight of this program. Is the report finished? Is that report available today?

Answer. Congress has extended the delivery date for this report to May, 1998.

neotropical migratory birds

Question. I would like to express my continued support for funding of the Neotropical Migratory Bird Conservation Program of the National Fish and Wildlife foundation through the United States Agency for International Development. The Foundation has forged a partnership to

work cooperatively on conservation of these Neotropical migratory birds. USAID's continued participation is essential as the only source dedicated to conservation of Neotropical migratory birds in Latin America.

The domestic benefits to this program are witnessed in every American's backyard. At some point during the year, Neotropical migrants are seen and heard in virtually every corner of the country. In the Chairman's own district, for example, the Bon Secour National Wildlife Refuge hosts thousands of visitors who are attracted by the opportunity to see a wide variety of birds, especially Neotropical migrants. I would like to urge you, Mr. Atwood, and USAID to make this program and the \$750,000 part of your baseline budget request to provide the year-to-year continuity required to fully implement this program.

I understand that OMB wanted the President to use his line item veto authority to remove this from our bill. I was very disappointed to learn this and pleased that you did not recommend the President line this important project out.

Does USAID have mechanisms in place to ensure the protection of these sites? What type of follow on monitoring does USAID do?

Answer. USAID shares your concern and commitment to the conservation of Neotropical Migratory Birds. A 1995 Department of Interior survey reveals that more than 52 million Americans enjoy watching and feeding birds, and that each year more than 17 million Americans take birdwatching trips. In the United States, birding contributes an estimated \$25 billion to our local economies each year and supports 190,000 jobs. Initially, USAID funded this program annually in response to a series of Congressional earmarks. However, both USAID and the National Fish and Wildlife Foundation agreed that to allow for longer-term planning, we needed a longer agreement. Therefore, in 1997 USAID signed a new \$3 million, 5 year agreement with the Foundation to extend the effort through the year 2002. USAID provides additional funding to conserve Neotropical migratory birds through several other programs, including the Biodiversity Support Program and Parks in Peril.

USAID and the Foundation are working closely together to ensure the sustainable protection of important Neotropical migratory bird sites. For example, we have recently extended the maximum length of award for a single grant from one year to two years. In addition, we give priority to grant applications working cooperatively with other initiatives, such as other USAID programs. USAID has placed great emphasis in recent years on increasing the sustainability of its investments. As a result, the Neotropical Migratory Bird Conservation Program has emphasized strengthening partnerships with the private sector, developing ecotourism potential, and other ways of increasing income to important sites. Finally, the program focuses on strengthening the capacity of local organizations to efficiently manage and coordinate their activities.

USAID and the Foundation have initiated two new monitoring systems for the program in the past three years. First, as a part of USAID's re-engineering effort, the program has developed a detailed system for tracking results of grants under the program. Second, we have increased the frequency of visits to field sites by Foundation and USAID staff significantly in the past two years. The Foundation has also posted a field representative in Guatemala City, who is responsible for new program development and monitoring the progress of current and past grantees.

As a result of these site visits, we have identified new opportunities for collaboration among partners, and have identified areas where specific grants needed improvement. Our results monitoring program has documented many of the program successes. With USAID support, the Foundation has supported 46 environmental education, applied research, and habitat conservation projects in 11 Latin American countries. The program has been very successful, providing small catalytic grants to individuals and organizations poised to make a difference. It has brought a tremendous amount of cooperation among U.S. public and private groups working in Latin America, and every \$1 spent by the Foundation and USAID has been matched by \$1.54 from private sources. The result has been the effective conservation of 165,000 acres of forests this past year alone.

Despite the best efforts of this and other USAID programs, habitat losses continue, and potential stresses related to human population growth and climate change make these investments more critical and timely than ever.

usaid biodiversity programs

Question. I would like to commend USAID for its work in integrating the conservation of biological diversity in its development assistance programs. I strongly support the continuation of USAID funding for biodiversity conservation and tropical forest protection in developing countries. The protection of global biodiversity is critical to our security and economic prosperity.

What plans does USAID have with regard to the future of biodiversity programs?

What global programs, field support and research does USAID plan to ensure the continued successful discourse it has achieved in addressing environmental problems throughout the world?

Is it USAID's intention to continue to use NGOs as a cost-effective means of delivering development assistance?

Does USAID intend to continue adequately funding programs promoting biodiversity especially in situations where lack of participation would undermine the success of a regional strategy?

Answer. USAID plans to continue its support for biodiversity conservation as a critical component in promoting sustainable economic development. USAID plans to spend over \$50 million in FY98 on biodiversity conservation activities.

USAID is committed to conserving biologically important habitat, both within and outside of protected areas. USAID's efforts focus on achieving effective management of habitat, as well as improving biodiversity conservation through strengthened policies and practices. An important aspect of our work is to document on-the-ground conservation results, and to identify and broadly disseminate lessons learned. We plan to increase our support for community-based approaches to conserve biodiversity, including the participation of indigenous people. We will also strengthen USAID's technical expertise in biodiversity conservation and natural resource management through training and staff development.

USAID intends to continue to expand our emphasis on partnerships with conservation organizations. We plan to develop new partnerships with conservation organizations through which USAID can expand conservation programs consistent with USAID's biodiversity conservation objectives. Expanding the programs of conservation organizations can be a cost-effective mechanism to promote biodiversity conservation and the sustainability of development efforts.

USAID places a strong emphasis on promoting participation

throughout our portfolio of development assistance. USAID intends to continue to contribute to important regional strategies and initiatives, such as the Summit for the Americas, through its biodiversity conservation programs.

parks in peril

Question. The Parks in Peril program, another program I have followed for a number of years, is a partnership with the private sector to promote biodiversity conservation in critically imperiled ecosystems throughout Latin America and the Caribbean. The Chairman has stated that he wants to increase the amount of the foreign aid pie that goes to Latin America. Over the past seven years, Parks in Peril has been extremely successful in providing assistance to local non-governmental organizations in the protection and management of parks and reserves, and in integrating these areas into the economic and cultural livelihoods of the communities that live in and around them. Parks in Peril has enhanced the development of enterprise and democracy in the region, through its support of private organizations and local communities.

I would like to note that USAID has made significant progress turning ``paper parks'' into genuine protected areas. What is the exact number of genuine protected areas?

Answer. The USAID-supported Parks in Peril program has helped turn twenty-eight ``paper parks'' into genuine protected areas.

Question. In what countries are they located?

Answer. The twenty-eight genuine protected areas are located in Belize, Bolivia, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay, and Peru. In addition, within the last nine months, the program has initiated park management activities at five new sites (one each in Jamaica, Brazil, the Dominican Republic, Honduras, and Paraguay).

Question. How much land has been protected under the program?

Answer. The USAID-supported Parks in Peril program has protected almost 22 million acres of land.

Question. How many of the sites have graduated from the program?

Answer. Thirteen sites have graduated from the program.

Question. Does USAID have mechanisms in place to ensure the protection of graduated sites?

Answer. Although protection of graduated sites cannot be guaranteed over the long-term, the Parks in Peril program emphasizes interventions which are essential for continued park protection once USAID assistance ends. Key interventions include: (a) strengthening local institutions, especially NGOs, who will bear the primary responsibility for protected area management; (b) increasing environmental education in communities around protected areas to promote local support of conservation; (c) providing tangible economic benefits to people living around protected areas; (d) improving the local policy environment for conservation to remove incentives which degrade resources in and around protected areas; and (e) securing long-term financing for protected areas to support continuing conservation efforts well into the future. Once sites have graduated, USAID continues to support additional policy efforts for improved park protection, and coordinates with other donors (e.g., GEF, Japanese, Germans, Dutch) regarding financing park protection. In addition, The Nature Conservancy, the U.S. PVO that implements the Parks in Peril program, has an institutional commitment to maintain its strong relationships with partner, in-country NGOs to assist them in securing sustainable park protection of graduated sites.

Question. What types of follow-on monitoring does USAID do to

ensure the sites are perpetually protected?

Answer. All Parks in Peril sites, including those that have graduated, are evaluated annually to monitor progress. One of the key tools for this annual evaluation is a ``Consolidation Scorecard'' which highlights sixteen indicators essential for long-term park protection (e.g., on-site infrastructure, number of park guards, completion of management plans and long-term financial plans, environmental education and compatible development activities with local communities, etc.). The Nature Conservancy and local NGOs conduct these yearly evaluations and report the results to USAID/W and local Missions. In addition, the Parks in Peril program is currently being evaluated by a team of external experts.

general foreign aid

Question. The purpose of American foreign policy and the purpose of our investments in USAID programs is to keep America strong and respected. Our goal is to protect the interests of our citizens in an age when national borders are porous, markets are global, and many of the threats to our security cannot be dealt with by any one nation acting alone.

How have USAIS's programs improved the security of our allies, our partners in the Middle East Peace Process, and our friends in the states of Eastern Europe and throughout the world?

In general, how do USAID programs support freedom, security and strengthen the security of the United States of America?

How have USAID programs improved our ability to function in the world?

Answer. Deadly conflict and crisis within countries represent the main threats to security in the post Cold War era. Foreign aid programs have improved security by successfully addressing some of the factors that increase the likelihood of deadly conflict and crisis. Aid programs have promoted economic, social, and political progress. They have attempted to strengthen institutions and enhance human resources, so that countries can better manage and accommodate internal conflicts without falling into crisis and deadly conflict.

Even if these efforts are successful in achieving such goals, they cannot guarantee security. Some conflicts are too deep-seated and bitter. Ireland is an example of economic, social and political progress, and relatively strong institutions and human resources. Nonetheless, deadly conflict has persisted.

While successful development does not guarantee security, it significantly improves the odds of avoiding deadly conflict and crisis. Within the traditional developing world over the past decade, almost all of the countries that have fallen into crisis are least-developed countries where development progress has been at best sporadic and uneven (e.g. Somalia, Sudan, Zaire, Burma, Liberia, Rwanda, Haiti, and Ethiopia). Conversely, almost all of the countries that have reached middle-income or advanced status, as well as most poor countries that are making steady progress (e.g. India, Bangladesh, Ghana and Uganda since the late 1980's) have largely avoided crisis and deadly conflict.

A well-publicized study of failed states sponsored by the CIA reported that high infant mortality and low levels of openness to foreign trade were the most reliable predictors of state failure. We believe that these indicators are best seen as proxies for low levels of development. The implication is that with broad economic and social progress, the odds of state failure diminish.

In the Middle East, where conflicts are indeed deep-seated and bitter, our aid has contributed to significant economic, social, and

political progress. For instance:

According to the Fraser Institute, economic freedom increased between 1975 and 1995 in Israel (an increase in the index from 2.2 to 4.2); in Egypt (2.7 to 4.4); and in Jordan (4.3 to 4.8). The improvements for Israel and Egypt were relatively large compared with other countries. These represent significant strengthening of policies and institutions, in many cases supported by foreign aid.

Both Israel and Egypt achieved clearly positive average annual growth in real per capita income over the 1985-95 period (2.5% and 1.1%, respectively). While per capita income growth for Jordan was negative over the same period, real gross domestic product has increased at a rapid rate (8% annually) since the Gulf War. This sort of economic progress does not guarantee security and stability, but it surely helps.

On the social side, there have been major improvements in life expectancy, and sharp declines in infant mortality and fertility in Egypt, Israel, and Jordan. More generally, people's well-being in terms of health, education, status of women, and other social dimensions has clearly improved on average in each of these countries.

On the political side, Israel has long been classified as "Free" by Freedom House, and its ratings within that category have improved. Jordan has made significant progress, from "Not Free" to "Partially Free". Egypt has remained classified as "Not Free". For Jordan and Egypt, internal threats posed by fundamentalists have undoubtedly contributed to limits on political freedom.

Similarly, in Eastern Europe foreign aid is supporting economic, political, and social progress, including more effective institutions. While most Eastern European aid recipients are relatively advanced by development standards (looking at per capita income and social indicators), they are undergoing a profound institutional transition, which challenges their capacity to manage conflict. In most cases we are seeing significant improvements in economic growth performance, democracy, and in the performance of underlying institutions.

In some cases, particularly parts of the former Yugoslavia, avoiding deadly conflict and crisis will take considerably more than the economic, social, and political progress that foreign aid aims to support. Nonetheless, there and elsewhere this sort of progress will enhance security by improving the odds that conflict and crisis can be avoided.

USAID foreign aid programs have improved the U.S. ability to function in the world by promoting economic and political freedom; by supporting economic and social progress, and by helping to foster a more cooperative global order.

First, USAID and other foreign aid programs have successfully promoted economic and political freedom. Of sixty-six aid recipient countries covered by the Fraser Institute survey of economic freedom for 1975 and 1995, economic freedom clearly improved in fifty countries; was substantially unchanged in six; and clearly declined in only ten. Of eighty-six aid recipient countries covered by the Freedom House surveys of political freedom for 1975 and 1996, freedom clearly improved in forty; was substantially unchanged in twenty-three; and clearly declined in only thirteen. For both economic and political freedom, the average change over all of the countries surveyed has been significantly positive.

These sorts of improvements mean that the global community in which the U.S. operates is increasingly one of shared values where private markets and democracy are concerned.

Second, USAID and other foreign aid programs have successfully promoted economic and social progress. USAID recently reviewed the development performance of ninety aid recipients, a group that absorbed the bulk of U.S. (and other) foreign aid over the 1965-90 period and which today includes over 3 billion people. Forty-one countries, accounting for over two-thirds of the group population, achieved significantly positive economic growth over the 1965-90 period. (Looking at the more recent 1985-95 period, another sixteen countries join that group.) Progress in terms of social indicators (infant mortality, life expectancy, literacy, and fertility) has been nearly universal.

These sorts of improvements mean that the global community in which the U.S. functions is significantly healthier and better educated, with higher incomes and less widespread poverty.

Finally, U.S. foreign aid programs are part of a larger donor effort that developed under U.S. leadership, and has represented a major, unprecedented example of voluntary global cooperation. The idea that rich countries as a group would provide aid to poor countries represented a major step forward for the global community. While the Cold War helped stimulate and justify development cooperation in the early 1960's, President Kennedy made it clear that the U.S. was providing aid (and was encouraging other countries to do the same) because it was the right thing to do.

Since then, the number of donors has increased rapidly as has the share of overall aid provided by donors other than the U.S. This unprecedented example of voluntary cooperation under enlightened U.S. leadership (including aid to formerly communist countries) has surely made an important contribution to a global order that functions increasingly as a cooperative community of nations. It has enhanced the ability of the U.S. to function in the world as a global leader. Returning to the premise of the question, foreign aid has helped build a more cooperative international order under U.S. leadership.

economic support fund

Question. I think it is important to the overall Middle East Peace Process that we continue to support those nations who are working for peace. Although the Peace Process has seen some setbacks in the past year, I believe the United States must continue to stand firmly behind the process as a guarantor of peace and security.

I support providing the full budget request for assistance to the West Bank and Gaza. I continue to believe that support by the United States for the economic and social development of Palestinians is an important contribution to the Peace Process.

My question is in regard to where the Administration intends to take the \$52 million for the MED Bank from? Since the Chairman has made it clear he is opposed to increasing the total USAID amount for the Middle East where is the Administration taking the money from? Will it effect your programs in Egypt? Jordan? Israel? the West Bank and Gaza?

Answer. In FY 1997, Congress authorized U.S. participation in the Bank for Economic Cooperation and Development in the Middle East and North Africa (MENABANK) but did not provide funds. The President's FY 1999 budget submission includes a request for \$52 million from Economic Support Funds within the Middle East cap to cover the paid-in portion of our first-year share subscription. Key appropriators in Congress have indicated that they believe funding for the Bank should come from existing Middle East monies and that is the Administration's intent. While Ambassador to the UN, Secretary Albright signed the Bank Charter for the U.S. (11/28/96); ratification will await funding. The

Administration will be working with Congress in the coming weeks to develop an acceptable funding formula for the MENABANK that also meets our regional priorities.

success of cdr and cdp

Question. Do you think the United States-Israel Cooperative Research (CDR) and the United States-Israel Cooperative Program (CDP), established by the Congress in 1985, continues to be successful in helping countries alleviate some of their agricultural and health problems?

Answer. The CDR Program provides U.S. funding for cooperative applied research involving Israeli scientists and their counterparts in USAID countries, allowing them to work together on significant development problems. CDR focuses on areas in which Israeli research interests and expertise are particularly valuable to the other countries. There have been many significant research results to date, including advances in saline and dry-land agriculture, improved agricultural water management technology, improved biopesticides, livestock vaccines, and added understanding of diseases such as leishmaniasis and leprosy.

Developing country researchers who have participated in the program praise it because it gives them an opportunity to do meaningful work with world-class scientists, use decent equipment, and benefit from training abroad. While the research linkages created usually do not have an immediate impact on our strategic objectives in a given target country, we believe that with a relatively small amount of funding the program can positively impact long-term economic growth and development.

The CDP Program provides U.S. funding for the Government of Israel to conduct technical training in Israel and abroad and to promote model farms which demonstrate Israeli agricultural technology in less developed countries. CDP also emphasizes the application of Israeli technology, and the training of target-country personnel is primarily focused on modern sustainable agricultural practices. CDP activities are managed under MASHAV, a branch of the Israeli Foreign Ministry, with the technical assistance of CINADCO (Ministry of Agriculture).

Our hope is that eventually Israel will be able to sustain both of these programs with its own resources.

cdr and cdp funding

Question. Does USAID intend to fully fund its portion of the CDR and CDP Programs?

Answer. In FY 99, USAID intends to fully fund its portion of the combined CDR and CDP line item at \$5.5 million from the Development Assistance (DA) Account. This amount is separate from any New Independent States (NIS) funds which might be committed under the guidance of the State Department Coordinator for that region.

cdp and foreign policy

Question. Does CDP continue to be an important foreign policy objective of the United States?

Answer. The CDP program was created in the 1980's at a time when the State of Israel was not readily accepted in many areas of the developing world. Sub-Saharan Africa was one classic example in which CDP activity coincided with a positive change in attitudes and policies. Again, in the early 1990's, CDP was quickly introduced into the historically Muslim New Independent States of former Soviet Central Asia. In addition to training assistance, this Government of Israel program has provided valuable links of goodwill between people in the developing world to the people and government of Israel through

activities such as the ``Shalom Club'' and trips to Israel for training courses.

Today the State of Israel enjoys relatively better diplomatic and economic relations with the developing world and the independent states of the former Soviet Union. Thus, this program's relative importance in meeting U.S. foreign policy objectives has diminished.

women in development

Question. I support efforts to better integrate the concerns of women into USAID's programs and policies. I encourage USAID to undertake the institutional changes needed to support Women in Development. Investing in women is crucial to reducing hunger and poverty worldwide, increasing family well-being and to achieving sustainable economic growth.

Does USAID intend to fully fund and provide for the Office of Women in Development? Can you detail for the record that policies you have already undertaken?

Answer. USAID will continue to fully fund and provide for the Office of Women in Development. Despite constrained resources, the Office's budget has been increased every year: from \$8 million in FY 96, to \$9 million in FY 97, and to \$10 million in FY 98, an 11% increase over last year.

USAID is making remarkable progress in insuring that gender is integrated throughout the work of the Agency. USAID's commitment to gender integration is evident at several levels:

The technical capacity of the Office of Women in Development has been strengthened to provide significant levels of technical support for our missions worldwide as they endeavor to fully integrate women into our assistance programs. Two positions in the WID office which had been temporary positions have just been converted to career positions.

The Gender Plan of Action, which was adopted in March 1996, with additional actions put in place in June 1996, is being aggressively implemented. We have revised USAID's Strategic Plan to better reflect our commitment to addressing gender issues; procurement guidance on competitive grants and cooperative agreements now highlights the importance of addressing gender in all USAID agreements, and similar guidance is being drafted for contracts; and position descriptions for program officers are being amended to reflect greater accountability for gender considerations.

We have a number of initiatives that recognize that investing in women is crucial to reducing hunger and poverty worldwide, increasing family well-being, promoting democracy, and achieving sustainable economic growth. These include a Political Participation and Legal Rights Initiative, and a Girls' and Women's Education Initiative. We also have in place several program activities that address gender-based violence, trafficking in women, and female genital mutilation.

programs for children and aids prevention and control

Question. I have supported, and will continue to support programs for children like child survival, basic education, Vitamin A and other micronutrient programs. In addition, I support the continuation of the AIDS Prevention and Control Program and request that USAID maintain the program's funding.

Answer. We appreciate the continued support for USAID's HIV/AIDS prevention and mitigation efforts. USAID is acknowledged as the major funder and global leader in the response to the HIV/AIDS pandemic in the developing world. Over the past two years, we have seen evidence of national program impact in at least two emphasis countries. In Thailand, through increased condom use, HIV prevalence in young men has

dropped from 3.6% in 1993 to 2.0% in 1997. In Uganda, behavior change communications programs have contributed to a 35% reduction in HIV prevalence in young women aged 15-24. However, recent global data show that more than 30 million adults and children are now HIV-infected. This is one-third more than had been reported in 1996 and represents 5.8 million new infections in 1997 alone. We have requested \$129 million for FY 1999, in order to respond more effectively to this global pandemic.

palestinian-israeli cooperation program

Question. Last year I authored report language on the Palestinian-Israeli Cooperation Program. I would urge USAID to make this program part of its base budget to ensure that this type of grass roots cooperation continues promoting a better understanding and mutual respect between the Israelis and Palestinians living in the West Bank and Gaza.

Does USAID intend to fund this program?

Answer. The Department of State is currently reviewing program requirements against budget availability. While no final decisions have been made, we anticipate funding for this program will be at least at the FY 1996 level.

Questions for the Record Submitted by Congresswoman Lowey

microcredit

Question. USAID's December 1997 report on microcredit included a break-out of what you committed to microcredit programs in FY 96. I'm concerned that of the \$111 million that was allocated to these programs in FY 96, one-third of that went to non-credit activities. I understand that some of these activities, including training of microcredit funding recipients, are an important part of a successful microcredit program, but I remain concerned about how high a percentage of the overall microcredit account went to these activities. What are you doing to ensure that a higher percentage of the microcredit account is actually spent on microcredit lending? To what extent are these non-credit activities focused on increasing our investment in poverty?

Answer. USAID's microenterprise work includes microcredit, but also microsavings and non-financial programs. These latter programs include support for policy and regulatory reform; training programs and business services for microentrepreneurs; research on both the nature of microentrepreneurial realities in LDCs and on the actual effects of service delivery on microbusinesses and their owners and employees; and, the delivery of financial services. All of these programs are geared to eradicate poverty and most of them are intended to work synergistically with lending programs.

Significantly, in many cases, microentrepreneurs identify marketing, input supply and other similar items as more pressing constraints to their businesses than is the availability of credit. In other cases, training and regulatory issues (such as discriminatory licensing and zoning regulations) are also more pressing than credit. As a result, most donors see the need to address both credit and non-credit constraints.

population: family planning saves lives

Question. Very simply, access to family planning services saves lives. It is so critical that we continue to support this assistance, but I think that we have a responsibility to educate members of Congress and the public about what exactly this assistance accomplishes. Could you please tell us a little about how U.S.

international family planning assistance improves the health and well-being of women, children, and families around the world?

Answer. U.S. international family planning assistance is recognized for its contribution to helping couples plan their families, stabilizing world population, and improving quality of life. Family planning--through better spacing and timing of births--also plays a vital role in maternal and child health.

Each year, 585,000 women die of cause related to pregnancy and childbirth. Family planning can prevent at least 25 percent of all maternal deaths by allowing women to delay motherhood, prevent unintended pregnancies and unsafe abortions, protect themselves from sexually transmitted infections and HIV/AIDS, and stop childbearing when they have reached their individual reproductive goals.

Over 7 million infants die annually despite dramatic improvements in infant and child survival. Babies born less than two years after their next oldest sibling are twice as likely to die in the first year of life than those born after an interval of at least two years.

Children born to mothers under age 20 are more likely to die before their first birthday--one and one-half times more likely in many countries--than those born to mothers ages 20 to 29. Children born to mothers over age 40 and fourth-born or later children are also more likely to die. Family planning makes important contributions to infant survival by helping women space births at least two years apart, bear children during their healthiest reproductive years, and have only the number of children they want. Through its effects on birth spacing alone, family planning can prevent 25% of these deaths.

Adequate birthspacing also can improve the survival of the next older brother or sister. If the mother of an infant avoids becoming pregnant again too soon, she may find it easier to continue breastfeeding, putting her infant at less risk of illness and death. Diseases spread less easily in households with fewer children, and better spacing of children results in less competition for scarce household resources, including food, clothing, and living space.

The health of mothers and children is intertwined. If a woman dies during childbirth or soon after, her infant and other young children are less likely to survive. Motherhood and childhood can be made safer by providing family planning services along with quality prenatal care, clean and safe delivery, and access to essential obstetric care. According to UNICEF, "The first and most obvious step towards reducing the toll of maternal mortality and morbidity is to make high quality family planning services available to all who need them."

Current use of family planning in the developing world (excluding China), estimated at 36% of married women of reproductive age, is about half of developed country levels and can be estimated as preventing 600,000 infant deaths and 50,000 maternal deaths annually. An additional 600,000 infant deaths and 50,000 maternal deaths could be prevented each year if family planning use were doubled to developed country levels, reducing global mortality totals to 6.4 million infant deaths and 535,000 maternal deaths each year. Of course, the cumulative impacts of family planning programs on infant and maternal mortality are much greater than any single year impact.

population: impact of the mexico city policy

Question. There is a misunderstanding among many of our colleagues about the nature of our international family planning programs. Many proponents of the Mexico City policy believe that our population programs support abortion services. In fact, family planning programs actually reduce the incidence of abortion services around the world.

Could you clarify for us existing law regarding the use of U.S. population assistance funds for abortion services? And could you also discuss the impact Mexico City policy would have on our international family planning programs?

Answer. Current law provides a ``wall of separation'' between family planning and abortion in USAID programs. Since the enactment of the Helms Amendment in 1973, the USAID population program has been legally proscribed from supporting or encouraging abortion as a method of family planning. Specifically, as a matter of longstanding law and policy of this and previous Administrations, USAID funds cannot be used to pay for the performance of abortions as a method of family planning; to motivate or coerce any person to have an abortion; to lobby for or against abortion; to purchase or distribute commodities or equipment for the purpose of inducing abortions as a method of family planning; or to support any biomedical research which relates, in whole, or in part, to methods of, or the performance of abortions as a method of family planning.

The current version of the Mexico City policy contained in the conference report of the State Department Authorization bill imposes in statute, limitations on international family planning that were rejected by the Administration when it overturned the so-called Mexico City policy. While the bill allows the President to waive one aspect of those restrictions, it imposes a punitive ceiling on spending for population activities if the waiver is exercised. The conference report also imposes a global ``gag'' rule on foreign non-governmental organizations (NGOs) by prohibiting funding for those NGOs that engage in the democratic process in their own countries and conduct legal advocacy activities with their own funds. The restrictions put in jeopardy funding for the most experienced and qualified family planning and maternal-child health care providers working at the grassroots level to meet the growing demand for family planning and other critical health services in developing countries. For instance, the restrictions would most likely end funding to key private family planning groups in Russia, where assistance from USAID has helped increase the use of contraception, contributing to a more than one-third decline in abortions. If HR 1757 were to become law, the consequences would include an increased number of unintended pregnancies, unsafe abortions, and maternal and child deaths.

The Administration considers HR 1757 unacceptable. A funding cap of \$356 million and sweeping restrictions on free speech make this version as restrictive, if not more so, than previous formulations.

population: fy98 request level

Question. I was very concerned to see that the Administration's FY99 request for international family planning programs is \$50 million lower than its FY98 request. I hope this is not indicative of a decreased commitment to international family planning. Could you please comment?

Answer. The Administration's FY99 request of \$375 million in Development Assistance (DA) funds does not represent a declining commitment to international family planning. While this level is \$25 million lower than last year's DA request, it is \$33 million higher than the \$342 million in DA funding available for international family planning in FY98. In addition to DA funds, the Administration expects to devote \$25 million in FY99 funds for international family planning from other funding accounts, including ESF, FSA and SEED accounts.

education and training

Question. An important part of expanding our commitment to basic

education funding is ensuring that USAID has the technical capacity to do so. Could you discuss what you are doing to increase the number of individuals at USAID missions around the world who are experts in development education?

Answer. USAID has undertaken two recent actions to meet increasing needs for professional personnel that are emanating from the maintenance and expansion of its basic education programs. First, USAID requested the inclusion of basic education advisors under section 523 of last year's Foreign Operations Appropriation Act (H.R. 2159). This section addresses the TAACS Program (Technical Advisors in AIDS, Child Survival and Population) which has been extremely successful in assisting USAID to incorporate high quality technical advisors in these areas. The request was incorporated in last year's Act and, as a result, in FY 1998 USAID began the recruitment and placement of basic education advisors in field missions and bureaus with urgent priority needs for education support. In addition to the TAACS Program, a USAID Workforce Planning Task Force, which completed work last October, has laid the basis for systematically improving USAID's capability to match its longer term needs and operational capacity with technical personnel resources, including direct hires in education.

infectious disease funding decrease

Question. I am very concerned about the low request level for infectious disease funding. You have requested \$30 million for these critical programs--down from \$54 million in FY 98. This funding is helping us work toward global eradication of diseases like tuberculosis, which most of us probably thought was long gone, but is, in fact, the number one killer of adults from a single infectious disease. TB kills more people around the world than all other infectious diseases combined. And this funding is also critical to our fight against polio, malaria, yellow fever, and other diseases that are ravaging the developing world and continuing to threaten Americans living in and out of the United States. Could you explain this decrease?

Answer. Our request for FY 1999 of \$30 million for the infectious disease initiative is not meant to signal a reduction in the importance USAID places on these programs. The fact that we have requested a separate account in FY 1999 for Child Survival/Diseases and Basic Education, including a separate category for the new initiative, demonstrates the importance that we give to these programs and activities.

Rather, our approach is based on the realization that work to reduce the threat of infectious diseases is integrally linked to, and must be supported by USAID's efforts in other areas.

Social and economic conditions such as poverty, malnutrition, lack of education, poor sanitation, overcrowding and environmental degradation, and rapid population growth allow infectious diseases to flourish and spread. Our direct efforts to reduce the threat of infectious diseases are made much more effective when these other issues are adequately addressed.

For the past several years, work in these broader development issues that affect social and economic conditions has been increasingly underfunded. To develop a more balanced approach to USAID's goals and objectives, in the FY 1999 request, USAID has requested funding for activities that in part address some of the underlying social and economic conditions that impact on health and diseases, including education, poverty, and malnutrition. This has necessitated making difficult choices, but in the long run, USAID believes that investments

in these other areas are critical components to sustain USAID's work to address infectious diseases and improve child survival.

While addressing issues such as poverty, malnutrition, and education will not have an immediate impact on infectious diseases and child survival, serious gaps in these area make it difficult to address the spread of infectious diseases and improve child survival most effectively. These issues must be adequately addressed, in addition to investments in the focussed set of priorities directly addressing infectious diseases, in order to assure that our gains in the health and child survival areas are sustained the long-term.

importance of cdr and cdp funding

Question. For the last decade, the CDR (U.S.-Israel Cooperative Development Research) and CDP (Cooperative Development Program) programs have funded cooperative research and training between American and Israeli scientists, health care workers and others as they work on critical development issues in Africa, Latin America, and the former Soviet Union. These programs have helped provide economic development and stability in areas of strategic importance to the United States. In fact, these programs have been a key part of our attempt to stop Iranian influence in the Islamic Asian Republics of the former Soviet Union. Could you discuss the importance of these programs and tell us if you plan to fully fund them in FY 98?

Answer. The CDR Program provides U.S. funding for cooperative applied research involving Israeli scientists and their counterparts in USAID countries of interest, allowing them to work on significant development programs. CDR emphasizes areas in which Israeli research interests and expertise are particularly valuable to the other countries. There have been many significant research results to date, including advances in saline and dryland agriculture, improved agricultural water management technology, improved biopesticides, livestock vaccines, and added understanding of diseases such as leishmaniasis and leprosy.

Practically speaking, the CDR program is doing good work that otherwise would not be done. Developing country researchers who have participated in the program praise it because it gives them an opportunity to do meaningful work with world-class scientists, use decent equipment, and benefit from training abroad. While the research linkages created usually do not have an immediate impact on our strategic objectives in a given target country, we believe that with a relatively small amount of funding the program can positively impact long-term economic growth and development.

The CDP Program provides U.S. funding for the Government of Israel to conduct technical training in Israel and abroad, and to promote model farms which demonstrate Israeli agricultural technology in less developed countries. CDP also emphasizes the application of Israeli technology, and the training of target-country personnel is primarily focused on modern sustainable agricultural practices. CDP activities are managed under MASHAV, a branch of the Israeli Foreign Ministry, with the technical assistance of CINADCO (Ministry of Agriculture).

In addition to training assistance, the CDP program has provided valuable links of goodwill between people in the developing world to the people and government of Israel through activities such as the ``Shalom Club'' and trips to Israel for training courses.

The components of both programs in the Central Asian Republics have been effective in that they have promoted useful research linkages and people-to-people contacts, thus achieving our foreign policy objective of facilitating the development of ties between Israel and the

historically Muslim former Soviet Republics in Central Asia. CDR provides a vehicle for funding and promoting applied civilian research in the region, and the program hopes to further emphasize its defense conversion potential. CDP introduced the Israeli Government in the very positive role of a sponsor of technical participant training at a time when it was unclear whether the new states of the region would continue the economic ties and diplomatic recognition of Israel forged in the last days of the old Soviet Union.

CDR and CDP will be fully funded in FY 98. In FY 99, USAID intends to fully fund its portion of the combined CDR and CDP line item at \$5.5 million from the Development Assistance (DA) Account. This amount is separate from any New Independent States (NIS) funds which might be committed under the guidance of the State Department Coordinator for that region.

Questions for the Record Submitted by Congressman Torres

usaid's commitment to an enhanced vitamin A effort

Question. Could you tell this committee about USAID's vitamin A initiative and whether or not you anticipate expanding this to a multi-year effort with expanded funding, because I think you would have some strong support from Congress if you did.

Answer. We are very proud of USAID's commitment and leading role in vitamin A research and program development over the last 15 years. Vitamin A is a critical element of USAID's current child survival and nutrition strategy to reduce infant and child mortality in developing countries. Our Agency-wide Enhanced Vitamin A Effort (VITA) represents a child survival priority over the next 5-10 years for USAID. We are today devoting over \$12 million dollars a year to enhancing the delivery of vitamin A, and plan to expand our efforts in the coming years. I have encouraged our missions to incorporate the expanded delivery of Vitamin A into all USAID child survival programs.

The increased delivery of vitamin A focuses on three major approaches, namely supplementation, food fortification and nutrition education. Specific results over the next 5-7 year timeframe are: significant progress towards the World Summit for Children goal of eliminating vitamin A deficiency; and 80 percent reduction in the number of vitamin A deficient children in target countries; and up to a 30 percent decrease in child deaths in target countries. Potential target countries include but are not limited to Bangladesh, India, Indonesia, Nepal, Ethiopia, South Africa, Tanzania, Uganda, Zambia, Nicaragua and a Central American network.

However, USAID cannot achieve these goals alone. We are catalyzing strategic partnerships with host governments and other donors along with creating a Domestic Alliance comprised of the private sector, such as food and pharmaceutical companies, civic organizations, institutions, private voluntary organizations (PVOs) and multilateral organizations to help mobilize this important international effort. Major donor colleagues include UNICEF and Canada.

USAID will maintain support for key applied research efforts, such as validating the positive impact of vitamin A on maternal survival, and further contributing to global standard of vitamin A and other micronutrient delivery.

We would be pleased to provide you with a briefing on the VITA Enhanced Effort at your convenience.

Questions for the Record Submitted by Congresswoman Kaptur

p.l. 480 title ii

Question. The poorest of the poor or ``ultra poor'' are estimated to comprise an average of 20% of the population in developing countries. Feeding programs to assist these people are difficult to quantify or measure in the short run beyond the amount of food delivered, the number of meals prepared and the number of people served. What level of funding does USAID provide to assist these individuals through PL 480--Title II?

Answer. P.L. 480 Title II funding is divided between emergency and non-emergency food aid programs. All of our emergency funding is ``relief'' feeding programs to populations in crisis. \$500 million has been budgeted in FY 1998 to meet our emergency needs. USAID does have a policy to give Title II funding priority to programs where the recipient will eventually be able to make self-sustaining progress toward food security. We have concluded this is most likely to occur with ``developmental'' activities which improve household nutrition or enhance agricultural productivity. Notwithstanding this policy focus for non-emergency Title II activities, USAID does support a large number of traditional ``relief'' programs in both its non-emergency and emergency Title II activities at approximately \$15.7 million. In all cases, resources are focused on the neediest countries and within those countries on the most vulnerable.

With emergency Title II programs, the U.S. feeds the starving women and children we all see on CNN. Recent crises in Bosnia, Rwanda, and North Korea are examples of where Title II resources have supported traditional relief feeding activities to maintain the health of the most vulnerable groups in those societies.

In non-emergency Title II feeding programs, U.S. commodities are often used in maternal/child health activities and food-for-education activities benefiting vulnerable groups of women and children. In many cases, these traditional feeding activities have been integrated with other developmental resources to increase the likelihood of sustainable improvements in the health and nutrition of these groups. This category also finances food-for-work programs for poor farmers and landless laborers in countries like Bangladesh. The beneficiaries of these programs are also vulnerable.

USAID also allocates Title II resources to the sorts of welfare feeding programs which Mother Theresa's Missionaries of Charity manage. We will continue to do so and have told cooperating sponsors we will consider modest expansion of these activities. However, the beneficiaries of emergency programs and of non-emergency programs such as maternal/child health are also vulnerable and we believe warrant continued priority.

Question. I am concerned with reports that USAID is cutting back on assistance to the poorest of the poor in favor of funding assistance where results can be quantified and thus comply with the Government Performance and Results Act of 1994. What level of funding was provided in these programs for each of the past 3 fiscal years? Has all of this money been spent?

Answer. The overall focus of our food aid programs has not changed. Our annual guidance to the PVO community continues to give emphasis to food insecure areas and the poor, as in previous years, in addition to focusing our programs where the recipient will be able to make self-sustaining progress toward food security. These foci will only be strengthened as we apply performance-based management principles to U.S. food aid programs. The Government Performance and Results Act of

1994 provides us a powerful framework for ensuring that our programs and resources are appropriately focused on the poor. Our goal remains development; the measurement of development change is a means to this end, not an end in itself. We are working with the PVO community, which implements the food aid program, to improve upon program monitoring in order to strengthen program management and, in turn, increase program results. Such monitoring allows us to focus and improve project management, eliminate poorer performing projects and expand upon projects achieving desired results.

For fiscal years 1995, 1996 and 1997 Title II funding totaling \$821.1 million, \$821.1 million and \$837.0 million, respectively, was appropriated. We estimate that Title II programming goes almost exclusively to the very poor, however, ``relief feeding'' programs were funding at \$34 million in FY 1995, \$25 million in FY 1996, and \$15.3 million in FY 1997. We are currently considering expanding funding for this type of feeding program. Over \$20 million in previous year funding was carried over into FY 1998, however, we expect all of this money to be expended by the end of the fiscal year.

micro-enterprise programs

Question. In last year's House Appropriations report, we included language to make sure farmers and farm production were included in activities under micro-enterprise programs. We do not believe the program should discriminate against farmers in favor of merchants or others.

Would you please send to the Committee the latest definition you use for micro-enterprise and how you are implementing this change?

Answer. USAID's Microenterprise Development Policy Paper, which sets the guidelines for USAID's work in the microenterprise field, defines microenterprises as ``tiny, informally organized business activities other than crop production.'' While this definition does not include farm production, it does not, however, discriminate against farmers, as many farmers operate microenterprises as sidelines during the off-season. In fact, the most successful microfinance institutions do not attempt to restrict the uses of funds by borrowers. As a result, microloans can be and are channeled to crop production activities to the extent that they are for short periods of time. Neither financing for long-term investments in the agricultural sector, nor investments in housing qualify for these loans.

USAID is presently exploring direct linkages between microfinance and rural finance in its broad sense. We are looking at the provision of credit and savings services in rural areas through financially sustainable institutions which is a priority item in USAID's microenterprise effort.

agricultural development

Question. USAID has modified its broad-based economic growth strategic objective to include agricultural development. Can you tell us how missions are changing their strategic objectives to include agriculture? Which missions plan to increase agricultural development programs as a result of this renewed emphasis on agriculture?

Answer. USAID missions in many of the Agency's recipient countries are by and large working in agriculturally-based economies. The missions have recognized over the years that successful programs in economic growth must include agriculture.

Our agricultural programs declined in size with the reduction in overall resources in the early to mid 1990s. During this period Congressional priorities for child survival, diseases and basic education programs have become major funding priorities within the

overall Development Assistance account. At the same time there have been a number of Administration priorities for population and environmental programs, non-traditional export promotion, privatization, rural infrastructure, and market reform as well as joint interest between the Administration and Congress for increased funding of microenterprise programs. Despite this contraction of, and increased competition for, funds, many of our missions continue to have agriculture programs as a major priority.

However, USAID's agriculture programs can be greatly expanded only if additional funding becomes available for economic growth programs in general and agricultural programs more specifically.

In Africa, the Administration has recognized this problem, and the President's Africa Food Security Initiative (AFSI), announced in his recent speech in Uganda, will provide resources for USAID missions in five countries to add new agricultural activities or expand existing ones beginning this year. These countries are Uganda, Mali, Malawi, Mozambique, and Ethiopia. A higher resource level in AFSI would permit expansion of agricultural activities in other countries.

In the case of Asia Near East, it is premature to anticipate what changes, if any, may occur. Many missions are involved in agriculture, including research, policy reform, enabling environments, tariffs, technical assistance, agro-business, high-value cropping, etc. As the Agency proceeds with preparation of its FY 2000 budget submission we will be exploring in tandem with our field missions additional opportunities for involvement in this area.

The Latin America and Caribbean Bureau has seven economic growth strategic objectives that include agricultural programs. At this time increased emphasis on agriculture in this region is being addressed through existing programs as opposed to new initiatives which would require additional economic growth allocations.

agriculture in georgia

Question. Does the Georgia mission in the former Soviet Union plan to increase its programs in agriculture? Can you give us details on missions plans concerning agriculture?

Answer. The USAID Mission for the Caucasus believes that agricultural and agribusiness growth and modernization are very important to the development and stability of the region as a whole. Georgia, in particular, appears to have significant agricultural potential. The mission is currently supporting a private seed industry development activity, which is being implemented by ACDI/VOCA, concentrating on improving the genetic material and then commercializing production and marketing for potato, maize, sunflower and wheat seed. A planned new project would complement this activity by working to develop a network of private agricultural input dealers, using fertilizer supply as a catalyst. This new project would work in all three countries in the Caucasus region, with Georgia as the main country of emphasis.

A second new activity under consideration would concentrate on facilitating trade linkages among the three countries in the region, both for inputs and outputs, through information dissemination and harmonization of standards and procedures.

These planned or ongoing activities are complemented by volunteer technical assistance provided through the NIS regional Farmer-to-Farmer program, and by USDA commodity monetization activities that concentrate on rural credit.

rural electric cooperatives and electric power reform in georgia

Question. Can you give us a status report on how USAID plans to use

U.S. rural electric cooperatives to help improve the collection systems and reduce losses for distribution companies in Georgia?

Answer. USAID is currently providing the Government of Georgia with assistance in energy sector restructuring, regulatory reform, commercialization, and privatization of state-owned power distribution companies. This assistance, which is being provided through Hagler Bailly, a firm highly experienced in the NIS region and a contractor selected through normal competitive procurement processes required by Federal Acquisition Regulations, is helping improve the collection systems and reduce losses for distribution companies in Georgia. Additional privatization support is being provided by an investment banking firm hired by the Government of Georgia with World Bank funds.

Recently, the National Rural Electric Cooperative Association (NRECA) submitted an unsolicited proposal to work in this sector in Georgia. USAID has had favorable experiences working with NRECA around the world, particularly in Kyrgyzstan. USAID has evaluated the Georgia proposal for technical merit. The proposal was for \$12 Million and covered two areas of assistance to the power section in Georgia: (1) Distribution metering and billing, and (2) Hydro-power privatization. USAID is unable to fund the unsolicited NRECA proposal on a non-competitive basis because USAID has already made an openly competed award to provide this type of technical assistance.

private and voluntary organizations

Question. The Committee strongly supports the Office of Private and Voluntary Cooperation including programs for cooperatives. Would you provide information on how much will be provided for this office and its cooperative programs in FY99?

Answer. FY 1999 funding for the Office of Private and Voluntary Cooperation of \$46,827,000 has been requested. Support for cooperative programs is planned at \$6 million.

Question. USAID is turning to larger and larger contracts to do its work. How do you reconcile large contracts with the Private and Voluntary Organizations (PVOs) partnership? Private and Voluntary Organizations are usually specialized and unable to bid on large contracts.

Answer. The community of private and voluntary organizations is extremely diverse and comprised of small and large organizations covering a wide spectrum of sectoral activities. Of the 430 PVOs registered with USAID, some organizations maintain a narrow focus while others carry out interested activities across one or more of the following sectors: health, microenterprise, agriculture, environment and humanitarian aid. While the primary funding mechanism to USAID's PVO partners continue to be grants and cooperative agreements, the increasing sophistication of a growing of PVOs is resulting in their successful competition for contracts as well as cooperative agreements.

The Agency's allocation of development assistance to PVOs has been gradually increasing; the most recent data we have shows over 30% of development assistance being channeled through PVOs. There has been no dramatic change in the size of contracts that would affect the USAID/PVO partnership. In fact, large cooperative agreements are increasingly being awarded to private and voluntary organizations with subcontracting elements to other PVOs. We are monitoring the level of contracts versus cooperative agreements and grants as well as the level of development assistance funds flowing to the PVO community.

credit unions

Question. Since credit unions and cooperatives provide more micro-enterprises loans than all other micro-enterprise institutions combined

in the world, why are they integrated into these types of programs? What plans do you have to better use cooperatives in micro-enterprise programs?

Answer. Credit unions, generally through national and international credit union movements, have long been supported by USAID because (1) they are owned and capitalized by their members, and (2) they target broad financial service delivery to low-income clients. In addition, the fact that they are permitted to capture and use member savings as their primary source of lending capital makes them less dependent upon donor capital or guarantee programs, and thus an excellent development investment. The World Council of Credit Unions ranked in the top five recipients of microenterprise funding in FY 1996.

We do consider credit unions an extremely important mechanism for delivering financial services to microentrepreneurs and poor people in general. However, credit unions do not specifically focus on ``microenterprise'' borrowers; their clientele is broader and their average loan is above the ``poverty lending'' mark of \$300 which the Congress requires us to track. We are working with credit unions through many of our grants to PVOs. In Africa and the Philippines, for example, we are doing some exciting work in integrating or linking village banking and group guarantee lending with credit unions and/or cooperative movements. Similarly, in Latin America, we are expanding linkages between mature village banks and local credit unions.

Question. Please give us an update on credit union programs in the ENI Bureau, specifically in the Ukraine.

Answer. USAID is currently funding six credit union development projects in Eastern Europe and the New Independent States through the World Council of Credit Unions (WOCCU). These six programs are in Latvia, Lithuania, Macedonia, Poland, Romania and Ukraine.

The credit union movement in Ukraine re-emerged with the help of a USAID-funded WOCCU project in 1993. The WOCCU project focuses on building an effective financial infrastructure to provide savings and credit financial services. The project helped to form the Ukrainian credit union association (UNASCU) which has some 60 institutional members, over 12,000 members and assets over \$1 million. The project works with seven model credit unions in Ukraine, has established a credit union training center, and is computerizing its systems. The project has put much effort into training credit union leaders, particularly through regional training sessions and meetings including some in Poland. In turn, interested groups from various NIS countries have visited the offices of UNASCU and WOCCU in Ukraine to obtain information on starting credit unions--a nice demonstration effect of the Ukraine project.

The first and most successful credit union program began in Poland in 1992. The program has achieved self-sustainability, with all the components of a fully operational system including appropriate legislation, successful credit unions, a national association, a central finance facility, audit and supervision within a self-regulatory system, computerization of operations, a training center and a credit union foundation that provide assistance to other movements in the region.

The WOCCU project in Latvia and Lithuania, which began in 1994 has also been successful, particularly in pushing through amendments on credit union legislation, in fostering the growth of credit unions by reducing the initial capitalization requirement to an acceptable level.

The WOCCU project in Romania, initiated in October 1995, has been successful in fostering the partnership with a Romanian association of

savings and credit unions. The credit unions within this association have been converted to competitive, market-driven organizations. To date, 14 have been converted, with a total of 4,637 members.

The WOCCU project in Macedonia was initiated in October 1995, but has encountered some difficulties in securing the appropriate legislative base for credit union development. WOCCU believes these problems will be resolved within the coming months, and that credit union operations will restart this year.

freedom of the press in ukraine

Question. How effective do you feel that USAID has been in assisting radio, television and newspapers to achieve freedom of the press in Ukraine?

Answer. Although freedom of the press in Ukraine has suffered significant setbacks over the past year or two, there also has been progress in achieving greater press freedoms and plurality in Ukraine since independence, and USAID has been quite effective in assisting this process.

The recent election campaign in Ukraine highlighted the major obstacles that remain to achieving a level of press freedom considered acceptable by Western standards, including: government control of the national TV channels, closure of opposition newspapers and TV stations, self-censorship, intimidation and murder of journalists, and unobjective reporting by non-state media, much of which is funded by political-economic interest groups.

Nonetheless, there is a corresponding increase in hard-hitting reporting by the pluralistic, non-state mass media which has been increasingly bold in reporting corruption by government officials.

USAID's success in assisting independent, non-state media achieve greater press freedom can be measured in part by the increase in the number, quality, and financial self-sustainability of non-state media. For example:

19 of Ukraine's 24 largest cities now have locally produced, non-state daily TV news programs, many of which credit USAID with providing invaluable assistance.

80 percent of the participants in USAID-funded TV and radio training programs have started their own production of new informational programs directly as a result of USAID training, while 8 percent started their own TV companies.

By implementing recommendations made during USAID training programs, newspapers around the country have benefited, as indicated by increases in circulation and subscription rates.

A recent monitoring report by a USAID grantee noted that a majority of the TV and radio stations supported by the grantee claim to be fully-sustained by advertising revenue, affording them greater (though not unlimited) opportunities to assert their editorial independence.

USAID contributed to freedom of speech during the recent parliamentary election campaign by supporting independent media organizations that monitored compliance with provisions of the election law related to media coverage, conducted and publicized public opinion polls (including Ukraine's first-ever exit poll), compiled and disseminated news stories for regional press, and produced informational TV programs. The highlight of this assistance was an election night program that broadcast preliminary election results, analysis by independent experts, and the results of the exit poll.

USAID programs continued to target regional media to improve the quality and objectivity of news reporting while increasing financial self-sustainability through small grants; loans; in-house consultancies

and training for managers, editors, and advertising departments; operation of press centers--accessible by E-mail to journalists nationwide--that provide free access to Internet, wire and photo services, and other resources; production and free distribution of news programs for radio stations; support to journalist associations and press clubs; and advice to universities on reform of journalism curriculum.

USAID also assists those who seek to improve the enabling environment for independent media in Ukraine by supporting NGOs and associations that monitor press freedoms, and providing advice and support to working groups drafting improved legislation. In addition, a new media law initiative trains lawyers specializing in media law, disseminates information on rights and restrictions of the press under the law, and operates a legal support hotline for journalists and media.

The USAID-funded media center that produced the ground breaking ``Vikna'' daily news program has now graduated from USAID assistance and is the center of a financially self-sustaining network of non-state regional TV stations which reaches more than half the population and continues to produce quality independent news and informational programs.

Prior to graduating from USAID, the media center trained many of Ukraine's current top TV journalists and technicians, and provided--free of charge--weekly news programs to scores of independent stations throughout Ukraine that couldn't afford to produce their own news programs.

ukraine

Question. As was noted with Secretary of State Madeleine Albright just two weeks ago before this Committee, there are reports that the USAID approach of the use of highly paid consultants is not appropriate or effective.

Answer. USAID uses institutional contractors (for-profit firms or institutions) and Private and Voluntary Organization (PVOs) to implement its assistance program in Ukraine, which is potentially a very powerful ally of key strategic importance to the US. I am convinced that our USAID program in Ukraine has been instrumental in helping to lay the groundwork for a lasting relationship with that government based on market-oriented principles and democratic pluralism. Our program has achieved impressive results in selected sectors due, in part, to the acknowledged excellence of expertise available from the US private sector.

As an example, USAID has been very successful in ready companies for privatization in Ukraine, and has exceeded its planned target of 7,000 medium and large enterprises. This was made possible by highly specialized technical assistance from US consultants to assist in the development of policies, laws and regulations governing privatization. In another sector, commercial banker training provided by seasoned, experienced US commercial bankers has resulted in increased assets of private sector banks, quantitative and qualitative improvement of bank examinations, and the development of a national registry, all of which are essential to improve the investment climate. Such achievements are partly the product of unique US technical expertise which commands salaries far higher than US government scale on the commercial market. Despite the slower-than-desired reforms in some areas in Ukraine, there are numerous similar examples which demonstrate the effectiveness of such US expertise.

The following five questions address USAID's use of consultants in

the administration and implementation of one of our largest assistance programs. Contractual mechanisms which may be used to acquire consultant services are covered in the Federal Acquisitions Regulations (FAR) and USAID Acquisition Regulations (AIDAR). Where appropriate, I will reference specific examples which I believe characterize the program. Generally, though, USAID consultant services are acquired through competitive procedures. Competition is widely acknowledged as the best way to encourage firms to offer quality personnel at a reasonable price. This allows the Government to attract competitive offers from the best firms, in terms of their track records for pricing, and quality of individuals offered. Competition stimulates contractors to price their proposal as low as possible, in part because the solicitation reflects the Government's minimum need.

Salaries paid to consultants hired under institutional contracts are based upon contractors' internal procedures (Personnel Classification System). The position classification for the proposed labor must be consistent with the tasks to be performed and the procedures must meet the criteria under the Federal Acquisition Regulations (FAR) related to reasonable and equitable payment. Reasonableness is determined based upon the performance requirements and upon the law of prudent behavior--that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.'

USAID has gone a step further and placed salary cap limitations on contractors in order to encourage cost containment by implementing partners. However, negotiated salaries are driven by the competitive process in the market place, and USAID reinforces this through competing the majority of the awards made.

Occasionally, salary caps are waived, but only under unusual circumstances. In such cases, the Contracting Official analyzes the offeror's personnel classification data and makes comparisons with compensation paid by other firms using similar labor and prevailing labor rates for the specific technical category. USAID negotiators also verify the proposed costs for fairness and reasonableness through cost evaluation used by the Government. Waivers are approved by the Mission Director or Assistant Administrator only after careful consideration by the appropriate procurement officials and prior to award of the contract.

consultants in ukraine

Question. How many consultants are working for USAID in Ukraine?

Answer. Although the number fluctuates in response to program implementation requirements, USAID presently finances approximately 160 long-term (more than 12 months) consultants resident in Ukraine under approximately 60 grants and contracts.

ukraine: consultants' compensation

Question. What is the average level of compensation for consultants administering USAID programs?

Answer. USAID consultants' compensation levels are negotiated based on standard US government procedures. It is very difficult to determine an 'average' level of compensation for consultants given the wide range of skills and expertise used, which includes former Peace Corps Volunteers with limited professional experience and Wall Street bankers with highly-specialized expertise. However, the maximum annual salary under U.S. Government contracts is \$455.36/day or \$118,393 annually. Most consultants are considerably below the threshold.

Contracts are ordinarily awarded competitively to ensure that USAID obtains the highest quality services at the most reasonable cost.

Compensation levels for USAID consultant services are established based on a determination of market value (salary range) by the contracting officer and the technical officer. The market value reflects the value, in the United States, of the position being recruited; the scope of work; and a determination of Salary Class. The market value of the position becomes the basis for a salary determination along with the applicants' certified salary history. The key factor in the determination of appropriate compensation levels is the establishment of a realistic and reasonable market value.

There are occasions where the technical skills and experience required to implement the USAID program in Ukraine result in compensation levels at a higher rate than expected. If approved in writing by the Mission Director or the cognizant Assistant Administrator, based on written justification, a salary may be negotiated based on the applicant's current earnings and adjusted in accordance with specific USAID guidelines. The waiver establishes initial salaries, not subsequent increases, for the same contractor performing the same function.

ukraine consultancy length

Question. What is the average length of a contract for a consultant?

Answer. USAID contracts are typically written for a period of two years with the option for renewal subject to satisfactory performance, the continued need for the services and the availability of funds.

ukraine: contracts renewal

Question. How often are these contracts renewed?

Answer. USAID consultant contracts in Ukraine, and elsewhere, are generally written for not more than two years. However, depending on the time needed to complete the objectives of the activity under which the contract is funded, many contracts carry an option to renew. Such renewals are always subject to the availability of funding and satisfactory performance on the part of the contractor. USAID will not ordinarily renew a contract beyond a total period of five years except in unusual circumstances. When the need for consultant services extends beyond this five limitation, USAID's general practice is to resubmit the contract for competitive bidding.

ukraine: agricultural consultants

Question. Do any of them specialize in agriculture?

Answer. Yes, USAID funds agricultural consultant services in Ukraine. Currently, USAID has contracts with six institutions in the agriculture sector, listed below, under which approximately 20 long-term expatriate consultants are employed.

USAID has programmed approximately \$20 million in the agriculture sector for FY 1998. Most of this investment is at the grassroots levels where organizations such as Citizens Network for Foreign Affairs (CNFA), Land O'Lakes/Agricultural Cooperative Development International (ACDI) and the US Department of Agriculture (USDA) work with private producers, agribusinesses and associations of producers or processors. This is supplemented by complementary activities in land tenure and commodity markets/exchanges.

ukraine: administrative costs

Question. How much of Ukraine's program funds go to the administration costs of the program?

Answer. A small portion of the Ukraine program budget is used to fund administrative costs through the employment of Personal Services Contractors (PSCs). USAID/Ukraine has a planned program budget of \$225 million for each of the fiscal years 1996, 1997 and 1998. The Mission

employs approximately 15 U.S. and 30 Ukrainian program-funded PSCs to assist in the administration and management of the program. This constitutes approximately \$5.3 million, or less than 2.5% of its program Operating Year Budget for administration of its program by these consultants. These employees possess specific technical skills which are essential in order to provide adequate management and oversight of our assistance program.

effectiveness of usaid program in ukraine

Question. Do you feel that our aid has been effective in Ukraine based on the recent suspensions of the IMF and World Bank loans based on the lack of economic reforms?

Answer. Let me start by saying that USAID, too, is very concerned about the pace and progress of key structural reforms. We are closely monitoring this issue and have and will adjust our program as needed to ensure that our efforts reinforce Ukraine's ability to come into compliance with IFI programs, and that our resources are applied to areas where they can be effective even in the current climate for reform.

Despite the fact that Ukraine has yet to make some key structural reforms, thus delaying IMF and World Bank loan agreements, significant reform is taking place in a number of sectors with USAID support. In many cases, these USAID-supported activities are assisting Ukraine to meet IMF and World Bank loan conditions, with the objective of enabling these structural reforms to proceed. While reform is not moving forward apace in all sectors--macroeconomic reform is lagging, as are reforms in agriculture and energy--in some, such as mass and case-by-case privatization, adoption of international accounting standards, regulation of capital markets, land titling, and targeted subsidies, Ukraine is ahead of or among the most advanced of NIS countries.

A few examples of areas where significant results have been achieved over the past year with USAID support include:

The macroeconomic policy working group is operational, with daily monitoring of critical indicators and policy analysis support that is helping the GOU to avert a financial crisis and improve economic management.

A 1998 budget was adopted on time in accordance with international methodology.

A GOU decree restricting government expenditures, more tightly controlling spending, and requiring cash payment of taxes was enacted.

The GOU will meet its privatization target this year. To date, about 7,500 medium and large enterprises have been at least 70% privatized, with over half of these enterprises 100% sold. 155 of Ukraine's very largest enterprises have been privatized, including 13 "giant" enterprises. The revenues of top privatizable companies equal 49% of GNP, in addition to those of already privatized companies.

The Entrepreneurship Law was amended to decrease the number of business activities requiring licenses from 102 to 42.

New tax and banking laws with wide-ranging implications were passed and are beginning to be implemented.

Commercial banks have converted to international accounting standards, and there are strict new regulations for loan loss.

The GOU is following up on its commitment to break up and privatize the grain monopoly.

Farm restructuring and land titling have been accelerating since last summer, with about 150 farms restructured and 4,000 titles issued to individual Ukrainian farmers.

In 1997, seven USAID-supported business service centers provided

training and technical assistance to over 6,000 entrepreneurs.

In Lviv, USAID assistance for improved water pumping and storage has resulted in 30,000 people having water 10 hours a day instead of 0-3 hours a day. By next year, they are expected to have water 24 hours a day.

Private farmers and their associations in five oblasts are now receiving agricultural inputs from and/or marketing produce through private farm service centers.

Since 1994, USAID's humanitarian assistance program has provided more than \$45 million to assist the most needy citizens of Ukraine, including orphans, the elderly and the disabled.

Over five million low-income families have received housing subsidies, while funds have been directed away from families who can afford to pay the full costs of housing, resulting in a \$1 billion annual budget savings.

improving the business and legal climate in Ukraine

Question. What has USAID done specifically in the Ukraine to improve the legal environment and has the USAID program assisted any of US companies in resolving their problems with the Ukrainian government?

Answer. USAID's commercial law program is aimed at improving the investment climate in Ukraine. It currently has six elements: reform of the bankruptcy system to permit enterprise restructuring and increase transparency; development of a collateral registry for movable property to facilitate commercial lending; strengthening the ability of the legal system to enforce judgments in order to add predictability to economic decision-making; elimination of barriers to business and investment in Ukraine imposed by overregulation and control of market participants by governmental institutions; enactment of a new civil code and elaboration of Ukraine's commercial laws to conform with the civil code; and assisting Ukraine's accession to the World Trade Organization (WTO) and implementation of commercial laws conforming with WTO standards.

Three of these areas--bankruptcy, collateral and deregulation--have shown remarkable progress. As a result of USAID's work with the Highest Arbitration Court, Ukraine now has the legal basis for financial restructuring of enterprises, not just their liquidation. This change in Ukraine's bankruptcy practice satisfied most of the World Bank's proposed bankruptcy conditionality for its second Enterprise Adjustment loan. Also with the assistance of USAID, Ukraine amended its pledge law to provide for a collateral registry for pledges of movable property. USAID is now assisting with the implementation of the pledge registry, which will provide a firm basis for secured lending in Ukraine because it will permit lenders to determine easily the existence of prior pledges. USAID's transparency initiative and the working group on shareholders' rights are working to conform Ukrainian procedures to standard international business practices.

USAID's recently begun assistance with deregulation has resulted in important initial achievements: passage of a law reducing the number of business activities requiring licenses from 102 to 42 and setting the stage for the creation of one-stop business registration centers; and the signing of a Presidential decree giving the reformist State Committee on Entrepreneurial Development powers to review existing and proposed regulations and recommend their elimination, as well as to audit the regulatory and licensing practices of central and local units of government. The enforceability of contracts and predictability in economic decision-making are other important issues for the investment climate in Ukraine. USAID is assisting Ukraine to strengthen

enforcement processes through legislative changes and institutional development.

USAID has assisted Ukraine in the adoption of a new civil code, which has had its first reading in the Parliament. USAID will soon begin to assist in the drafting and revising of a number of other commercial laws in a comprehensive approach to bringing them into conformity with the new civil code as well as with international standards applicable in market economies.

Ukraine's process of accession to the WTO is well advanced. USAID continues its role as the principal donor assisting Ukraine in accession, as well as in bringing its legislation and practices into substantial conformity with the international standards required by the WTO agreements.

Although USAID is not the U.S. agency responsible for resolution of business problems, USAID is part of the U.S. Government team working with Ukraine and U.S. businesses to resolve specific U.S. investor disputes through the Gore-Kuchma Commission and working directly with the Government of Ukraine. USAID also maintains an active relationship with the American Chamber of Commerce in Ukraine (AmCham) and through it, attempts to assist in resolving business and investment issues. For example, USAID is taking the lead in establishing a mechanism for an on-going dialogue between AmCham members and senior officials of the Government of Ukraine. Moreover, USAID technical assistance programs help Ukraine to improve the overall environment for business and investment without reference to specific businesses.

impact on non-certification on usaid program in ukraine

Question. If Secretary Albright does not certify Ukraine on April 30th, how will this affect your program in the Ukraine and your FY99 request for \$223.5 million?

Answer. Should USAID's FY 1998 budget for Ukraine be cut in half, it would severely hamper the achievement of the objectives of the U.S. foreign assistance program. These include assisting Ukraine to put in place the basic building blocks of a market-oriented economy, promote the development of small business, improve the climate for investment, promote development of democracy and civil society and soften the impact of economic decline on the people of Ukraine by strengthening NGOs and grassroots organizations which serve Ukraine's most vulnerable citizens and assisting with Ukraine's social transition. To date, USAID has programmed half of the FY 1998 budget, with funds allocated to high priority activities such as small business development, democracy building, environment, energy efficiency and health care finance reform. Activities for which funding has been greatly reduced include agriculture, energy, privatization, fiscal and financial reform, social sector restructuring and training. Should half of FY 1998 resources be withheld, USAID would have to reexamine the proposed resource allocation for FY 1999 to ensure that funds are directed to a way which best addresses priorities and funding requirements.

lebanon agriculture

Question. Can you tell us about USAID activities in Lebanon, particularly as it relates to agriculture?

Answer. The largest portion of USAID/Lebanon's program is the rural development clusters activity in areas that have suffered war damage or government neglect. USAID has funded five U.S. non-governmental organizations (NGOs) to provide assistance to thirty ``clusters'' involving approximately 220 rural communities over a five year period. This assistance concentrates on returning the affected communities to economic and social viability through support for basic infrastructure,

civic participation, income generation, and environmental protection. In each cluster a number of agriculture-related efforts are under way. These include restoring fallow land to orchards and crops; introducing new high-value crops such as fruits, vegetables and nuts; setting up processing and storage facilities for better marketing; and training farmers in new production techniques for their traditional crops and livestock. In a related activity, the American University of Beirut (AUB) has responsibility for an activity designed to help rebuild the Lebanese dairy industry. This supports a \$6 million U.S. Department of Agriculture GSM103 program to import 3,000 pregnant dairy cows.

infectious disease funding in the nis

Question. Last December, USAID announced a \$50 million foreign aid initiative to fight the spread of infectious diseases. Will any of that money be used in the NIS countries?

Answer. None of the \$50 million provided to the new Infectious Diseases Initiative is being allocated for the New Independent States (NIS). In FY 1998, USAID will, however, obligate over \$6.5 million in Freedom Support Act (FSA) funds to support infectious disease activities in the NIS region, including initiatives in HIV/AIDS, sexually transmitted disease and tuberculosis. In addition, approximately \$1 million of the Agency's HIV/AIDS funding supports work in Russia to prevent HIV infections.

NIS initiatives in infectious diseases include:

Diphtheria: USAID has been a major funder of technical assistance, immunization support and vaccines, resulting in a 60% decline in diphtheria cases throughout the region in 1997 versus 1996.

Polio: USAID has supported polio eradication efforts resulting in coverage rates for oral polio vaccine of greater than 90%. Two high quality polio reference laboratories are operating in Kazakhstan and Uzbekistan. USAID (Global Bureau) has committed \$1 million to the improvement of polio surveillance systems in the Central Asian Republics (CAR).

Viral Hepatitis, Acute Respiratory Infections (ARI) and Diarrheal Disease: USAID is providing assistance to improve the treatment and prevention of these diseases. In Kazakhstan, Kyrgyzstan and Uzbekistan, a program to improve the quality of the ARI and diarrheal disease management has resulted in a 93% decrease in deaths in one public district.

Malaria and Typhoid: USAID is funding the Centers for Disease Control and Prevention (CDC) to develop malaria surveillance capacity in CAR; and UNICEF to assist with malaria epidemics in Azerbaijan. USAID has provided emergency assistance to International Federation of the Red Cross (IFRC), United Nations Development Program (UNDP) and CDC to control and prevent further spread of typhoid in Tajikistan.

Tuberculosis (TB): USAID is focusing activities on TB and antibiotic resistance in Russia, the Caucasus and CAR. An innovative public/private TB initiative in Kazakhstan and Kyrgyzstan partnering CDC, Project HOPE, Abt Associates and Chevron Muniaigas will change TB prevention and treatment practices by: introducing the WHO protocol of Directly Observed Therapy (DOTS); strengthening epidemiological monitoring and surveillance; and by rationalizing pharmaceutical management to counteract increasing antibiotic resistance.

american college of physicians

Question: What is the status of the implementation of the American College of Physicians exchange program encouraged by last year's Foreign Operations Bill?

Answer. USAID is providing up to \$300,000 in 1998 to the American

College of Physicians, in collaboration with its designated representative, the Institute for Health Policy Analysis (IHPA). Funds will be used for continuing medical education in Russia, and are to be provided through a USAID/Russia agreement with the Academy for Educational Development. This agreement is designed to meet a broad range of training needs throughout Russia. To release funds, AED requires a USAID-approved training plan. AED is now working with IHPA on that plan.

In an effort to better link this activity with related health initiatives in the country, USAID/Russia has put IHPA in touch with the Administrator of the Agency for Health Care Policy and Research of the Department of Health and Human Services, who is the U.S. lead on the initiative to improve the quality of health services in Russia launched at the Gore-Chernomyrdin Commission's Tenth meeting in March 1998. The training by ACP members would complement the policy development, research and dissemination aspects of the joint U.S.-Russia program, and USAID hopes ACP agrees to join in this important effort.

Wednesday, April 1, 1998.

HUMAN RIGHTS

WITNESSES

JOHN SHATTUCK, ASSISTANT SECRETARY OF STATE FOR DEMOCRACY, HUMAN RIGHTS
AND LABOR

KENNETH ROTH, EXECUTIVE DIRECTOR, HUMAN RIGHTS WATCH

MIRA BARATTA, VICE PRESIDENT FOR PROGRAMS, FREEDOM HOUSE

CARLOS SALINAS, DIRECTOR OF LATIN AMERICAN AFFAIRS, AMNESTY
INTERNATIONAL

MIKE JENDRZENJCZYK, HUMAN RIGHTS WATCH (ASIA)

ROBIN WILLIAMS, U.S. CITIZEN

Chairman Callahan's Opening Statement

Mr. Callahan. Good morning. Now, this morning the subcommittee will have a hearing on human rights. We have one person on our subcommittee, Ms. Pelosi, who is very sincerely interested in human rights problems throughout the world and she requested this special hearing which I think is very, very timely. We have the Assistant Secretary for Human Rights, Mr. Shattuck, with us today. And he will present the administration views elaborating on the earlier testimony of Secretary Albright.

We do not expect to keep you, Mr. Shattuck, much beyond 11 o'clock, but following his testimony we will receive testimony from representatives of two major nongovernmental organizations, the Freedom House and Human Rights Watch. They will respond to Mr. Shattuck's testimony and present a global overview from the organization's point of view.

Our third panel will cover regional issues. At the request of Mr. Kingston we will hear from a private citizen, a member of the family of an American detained in Ecuador. And then we will hear from a representative of Amnesty International, who specializes in Latin America, and then from a representative of Human Rights Watch on Asia.

The National Security Subcommittee would like to reclaim this room by 1 o'clock and we have to accommodate them. At that time we will either be finished or we will adjourn to the hall.

This, I think, is the last subcommittee hearing we are going to have this year. I think we have performed all of our work in a very timely fashion because we are pressed for time and as soon as we get our 602(b) allocation we will be marking up our bill for Fiscal Year 1999. But before we begin the meeting and certainly before we end it today, I want to pay tribute to one of my colleagues, Representative Sid Yates.

This is his 50th year, I think, of hearings such as this and I thought we ought to this morning tell you, Sid, that you know more about the process of the entire Congress and especially the appropriation process than probably any other member of Congress.

Mr. Yates. Well, thank you, Mr. Chairman.

Mr. Callahan. And your service to this country and especially your assistance to me during my tenure as chairman is something that I am very, very grateful for.

So, the country is proud of you and should be and I know that you have sat through more of these hearings than any of the rest of us or probably all of the rest of us combined but it does mark a very significant time in history for you reaching this stage of your political career. So, we appreciate everything you have done for us and all the courtesies you have extended to me. The country is greatly indebted for all of your service.

Mr. Yates. Mr. Chairman, you have swept me off of my feet.
[Laughter.]

Mr. Yates' Opening Statement

I know we have a fine relationship, warm friendly relationship. Whatever help I have given you has been edited with the great talent that you, yourself, have. I have known a number of chairmen of this committee. As a matter of fact, I have known every chairman of this committee since it was first organized by the Marshall Plan dating back to 1949.

And you are as able, or abler, than any single member, any single chairman and I say that not because you said the nice things that you said about me, but because I sincerely believe that you are a very able person and an outstanding member of Congress. All that leading up to the fact that I am very grateful for your very kind words, Mr. Chairman, thank you.

Mr. Callahan. Well, naturally I enjoyed that response.
[Laughter.]

More than any response I have ever had since I have been in Congress. But I thank you, Sid.

Ms. Pelosi.

Ms. Pelosi's Opening Statement

Ms. Pelosi. Thank you very much, Mr. Chairman.

I thank you for holding this hearing. I think that it is a very important one. Indeed, I think it is central to what we do on this committee because our actions in the area of human rights and promoting democratic freedoms is about who we are as a

country. I, too, Mr. Chairman, want to join you in commending the leadership of our very distinguished colleague, Mr. Yates. I know for every person who has ever served with him, one of the great honors we will have in our lives is to call him colleague or to be his colleague. Mr. Yates has taught us all a great deal substantively about what we are dealing with and how to deal with issues in a very dignified way.

But, Mr. Chairman, I have to make one further point which may or may not make you happy and that is, as you know, Mr. Yates is the senior Democrat on this Committee and he is the Democrat of longest standing on this Committee and but for his commitment to his original Interior Subcommittee, chairman and ranking membership, he would be the ranking member and the chair of this committee. It is through his largesse that we serve together in this relationship and I know you are very grateful to him for that. [Laughter.]

Mr. Callahan. You know, it is not too late. [Laughter.]

Well, if at this stage of his career he wants to switch parties, I will jump down and give him a go.

Mr. Yates. Well, Mr. Chairman, will you permit me to reply to that? Mr. Shattuck, I am sorry, you will have to wait. [Laughter.]

But, you know, there is nobody that I admire more greatly than Nancy Pelosi. I have served with her, I forget how many terms now, and my esteem----

Ms. Pelosi. Six terms.

Mr. Yates. Is it six terms?

Ms. Pelosi. Yes.

Mr. Yates. My esteem and admiration and respect for her has continued to grow with every single day. You know, I was reading in Roll Call about the possibility that the lady from Oregon or Washington, Mrs. Dunn, may be considered for Speaker by the Republicans if that occasion arises. I have been advertising Ms. Pelosi for speaker on the Democratic side for so many years. There is nobody, nobody in the House who has more ability than Ms. Pelosi and handles it in a nicer way than she does. And I consider it not only a privilege but an honor to serve with her and an honor also to receive the very kind words that she gave me.

Thank you, Mr. Chairman.

Ms. Pelosi. You can kiss him, too.

Mr. Yates. Did the court reporter get that kiss?

[Laughter.]

Mr. Callahan. I will just briefly respond. If, indeed, the Democrats do reclaim a majority I hope that Nancy Pelosi is the Speaker of the House and----

Mr. Yates. She would be a good one.

Mr. Callahan [continuing]. And with respect to Mrs. Dunn, if Mr. Livingston drops out of his race for the speakership she would make a good speaker.

Mr. Yates. I do not happen to know Mrs. Dunn. [Laughter.]

Mr. Callahan. Anyway, Mr. Shattuck, we have used up about 50 percent of your time. We have your written statement. We will accept it for the record. Keep in mind that in 50 years of hearings, Congressman Yates has heard everything at least once and probably 10 times that you are going to say. But, in any event, we would welcome your testimony at this time.

Mr. Yates. Mr. Chairman, I just have one last statement.

Mr. Callahan. Yes.

Mr. Yates. I remember Paul--oh, my goodness, I do not remember, the names go first and then the knees go. [Laughter.]

But Paul who was the head of the Studebaker Corporation at that time left his job as chairman of Studebaker to become the head of the AID program. And he persuaded Congress to help in the AID program with a statement more than anything else by saying, well, we are going to try as quickly as we can to get Europe off our back and on its feet. And I suppose we have been trying to do that with every country of the world since that time, Mr. Chairman.

I do not know what that has to do with human rights but I thought it would be an interesting footnote.

Ms. Pelosi. Very nice.

Mr. Callahan. Mr. Shattuck?

Mr. Shattuck. Thank you very much, Mr. Chairman. I cannot resist just one sentence about Mr. Yates. I admire not only his human rights advocacy, but also his role in the arts and sciences, building up the great cultural capacity of our country. It is a privilege to be here.

Mr. Yates. Well, you know, I am very glad I came to this hearing. [Laughter.]

Mr. Shattuck's Opening Statement

Mr. Shattuck. Mr. Chairman, I will be extremely brief. You do have a lengthy statement from me, and I do not want to take away from your opportunity to question me. Let me just make a few thematic opening points, then I can go back into any aspect of the statement that you may wish.

I am here this morning to expand and answer questions on the Secretary's earlier testimony concerning the promotion of human rights, particularly through our foreign assistance programs. That is really what my testimony focuses on, not some of the broader aspects of our diplomatic work. But I am certainly prepared to talk about that as well.

We all know that the world is very different today from what it was a decade ago before the end of the Cold War. It is really not possible any longer to look at the world in old East-West, North-South orientations. I think the kinds of categories of countries that Secretary Albright focused on really give us a much better picture of what we are looking at.

There are those who are full members of the international system. There are those who reject the rules upon which the international system is based and are considered rogue States in our policy. There are those that are in transition from authoritarian rule. Many of them are still very much under that system, and we want to try to move them out of that because there is some evidence that they are seeking fuller participation. And, finally, there are those that are unable because of terrible conflict--often human rights catastrophes, such as happened in Bosnia or Rwanda--which are unable to enjoy the benefits and the responsibilities of membership in the international community.

It is those last two categories of countries, Mr. Chairman, on which the future so heavily depends, and which will affect whether Americans are going to be able to live in a world that

is peaceful, prosperous, free and relatively stable or not. And it is important to encourage those countries moving out of transition from authoritarian rule or from terrible conflict to become fuller participants. Those are the countries that are the focus of our assistance efforts.

And we have developed in recent years a number of new mechanisms for making decisions about the disposition of our assistance. We have a new human rights and democracy core group which draws together, under the leadership of the Secretary of State, AID, USIA the regional bureaus in State, and my bureau which chairs these meetings. We look at particular cases of countries in crisis, those emerging from crisis.

Recently we have addressed Albania, Bosnia, the Great Lakes region of Central Africa, Cambodia, Burma, and we are deeply concerned about Nigeria.

A second instrument is an initiative growing out of the Denver Summit that the United States chaired. The Group of Eight countries all came together and for the very first time, under U.S. leadership, began to work with those countries on issues of human rights and democracy. They established a human rights working group, which I chaired, and which had meetings in Washington. The working group will have an unprecedented meeting next month in Bamako, Mali, where G-8 countries and African countries will work in partnership to develop democracy assistance programs in countries which are in transition, particularly Mali, Uganda, other countries that are in that category in Africa.

A third very new mechanism that we have, Mr. Chairman, and one which the Congress has taken great interest in, is our work on religious freedom and the Advisory Committee on Religious Freedom Abroad, which I chair. The Advisory Committee has recently recommended to the Secretary of State the establishment of a high-level religious freedom coordinator in the State Department. We are very close to being able to announce the establishment of that position fully and the person who will occupy it.

This gives us a window into the problems of religious persecution that are plaguing many parts of the world, and also means by which conflicts can be resolved with the help of religious organizations. There are 20 distinguished religious leaders from the United States on the Advisory Committee.

Finally, we are beginning to do much more work in coordinating our assistance to develop the rule of law in countries around the world. This is really becoming more and more of a theme of our overall foreign policy. It is not only a concern of human rights and democracy building but it is a basic element in stability. The ability of economic development to occur and the rule of law has become, I think, in many ways a major rubric of all of our work.

Through the work of the appropriations committee, we have two sets of funds which have made it possible to develop activities and programs in all of these areas. First, the Human Rights and Democracy Fund, which was established two years ago rather and funded last year for the first time. It basically is the programmatic complement to the Human Rights and Democracy Policy Group that I mentioned before; and it has begun to provide funds for countries in crisis and in transition. We have used it particularly in Bosnia and Rwanda, with

international institutions like the International Commission on Missing Persons chaired by Senator Bob Dole which was created by the United States, and also the International Criminal Tribunal for the Former Yugoslavia and the same tribunal for Rwanda. These are major focal points of our work.

We have recently extended funds to the criminal tribunal for Yugoslavia to conduct investigations in Kosovo, to make it very clear that the ongoing atrocities being conducted in Kosovo, particularly by the Serbian forces, are subject to investigation and prosecution under international law as war crimes and crimes against humanity.

We have also a set of regional human rights and democracy funds that are established in each of the regions and they provide funding in small amounts for countries that are in more regular transition, including countries that are in virtually all of the continents of the world. There are many examples that I have provided in the testimony from various regions of the world, and I will not go into them unless you want to ask me questions about them in detail.

Certainly the crisis in the Great Lakes region of Central Africa, along with the crisis in the Former Yugoslavia, are serious problems that we are trying to address through our assistance programs.

When the President was in Rwanda he announced the creation of a Great Lakes Justice Initiative, and also additional assistance to the UN High Commissioner for Human Rights. The goal is to establish stronger human rights monitoring operations and Justice programs, to help Rwanda emerge from genocide and deal with the terrible crisis of prison overcrowding and the breakdown of the court systems.

There are other more general examples of the kind of funding that we have done. We are working to try to help Asian NGOs establish a human rights network in Asia under the general auspices of the ASEAN Human Rights Network. This would be comparable to what other regions have. There is, of course, an OSCE in Eastern Europe, there is the OAS in Latin America, there is the OAU in Africa but there is no human rights regional network in Asia and we want to try and assist the development of that.

Finally, there are three--I will just mention them as examples--three authoritarian countries where we are seeking to provide some forms of assistance to help those nongovernmental organizations and institutions of the rule of law to try to move those countries out of the authoritarian tyrannies in which they exist.

In Cuba, we are providing assistance to U.S.-based NGOs to disseminate information to the Cuban people to support the development of civil society and assist human rights groups.

In Burma, with the assistance of the Congressional earmark, we are engaged in democracy building assistance. We provide a grant to the National Endowment for Democracy to aid groups outside of Burma support Aung San Suu Kyi and her democratic movement and seek to bring about democratic peaceful change in Burma. We also provide humanitarian assistance through the International Rescue Committee.

Finally, in China, where there is a significant set of obstacles to the development of anything remotely resembling a

human rights protection system, there is, nonetheless, evidence that China is beginning to revise its legal system.

At the October summit between President Jiang Zemin and President Clinton there was a decision by the Presidents to cooperate in the field of the rule of law. And we believe that it is possible to try to move China in that direction by providing some assistance to U.S. nongovernmental organizations and legal experts to engage in exchanges with China.

This is not, by any means, a replacement for human rights diplomacy and human rights policy. But, it is something that draws broad support from many sectors of our society. We think would be well worth accomplishing, and we are in the process of consulting with Congress on this.

Let me just stop at that, Mr. Chairman, even though there are many more topics that could be taken up. There are certainly many other aspects of our human rights work, including arms sales restrictions, visa restrictions, trade sanctions and other kinds of negative measures that are used. There is also diplomatic work on behalf of free trade unions, and the support of business principles by companies that are operating overseas consistent with human rights considerations. But I will not go into any of those in detail, other than to draw your attention to what I have said about them in the testimony, and to answer any questions.

Thank you very much, Mr. Chairman. I do welcome the chance to have this kind of exchange with you. This is an area of our foreign policy where often the programmatic and appropriations side does not get as much attention and I am very pleased to see that you and Ms. Pelosi and Mr. Yates are giving it the attention that it deserves.

Thank you.

[The written statement of Mr. Shattuck follows:]

[Pages 428 - 451--The official Committee record contains additional material here.]

Mr. Callahan. Well, we thank you, Mr. Secretary.

And certainly in human rights violations we want to join every organization and do everything we can and appropriate as much money as we possibly can towards the elimination of human rights abuses worldwide.

Certainly, we are concerned about the people in Kosovo and in Bosnia and in Cuba and in China, but these are rather generic in the problems of the world. Yes, who would not be concerned about human rights violations.

But I think the thing that gives us the most heartache are the individual cases that happen to come before us. This afternoon Ms. Williams, wife of Jim Williams, who is in prison in Ecuador, is going to testify. I am sorry you will not be able to be here to hear her testimony. The same with a Mr. Valle, who is in prison in Honduras. You know, that situation is the thing that we need some immediate and direct attention given to.

When Secretary Albright came before our committee, Congressman Kingston of Georgia mentioned this problem to her

in great depth. When Congressman Kingston finished, I brought up the Valle case and we asked for some immediate response from the Secretary about both of these cases and have not yet heard from them.

So, I do not know what we do about this but I know that the State Department has been involved. But this is a human rights violation at its maximum. The fact that American people are having their human rights violated by the governments of these countries, who are supposed to be in a sense allied with us and who come to us for assistance, have got to recognize that we are not going to tolerate that. And that we are going to use our every effort to make certain that they understand how serious we are especially about cases such as the Williams case and the Valle case.

So, if you can respond. I know that Mr. Kingston is not here now, but if you could give us some response to the Valle case and to the Williams case we would appreciate it at this time.

Mr. Shattuck. Mr. Chairman, I am very familiar with both of those cases. And, incidentally, I will be represented here when Ms. Williams testifies this afternoon. So, we look forward to an exchange with her, and we will make sure that we follow-up directly with her.

In the middle of March, I think it was March 12th, we were in touch with Mr. Kingston. We sent him a letter outlining the various actions that the U.S. Government has taken to try to address the problem, the basic denials of due process in Mr. Williams' case.

The Ambassador and many other officials within the Embassy have repeatedly raised this case with the government of Ecuador. And we have urged expeditious processing of his case. He is, of course, charged under Ecuadoran law, so we cannot get his immediate release. But, we have urged this case be tried expeditiously, and that he get a full opportunity under international standards to provide evidence of his defense and all the elements that he might want to present.

We are going to be looking at his trial and attending the trial. You know, U.S. law enforcement authorities are very much in touch with the government of Ecuador on this case. So, I think that as far as our engagement on behalf of Mr. Williams as an American citizen--who you rightly say is caught up in a justice system which has serious due process problems--we are very, very active.

We are very active in that same fashion in the Valle case in Honduras. I think both of these cases illustrate the crisis of the rule of law in countries that are developing from a very, very troubled and authoritarian past. They need to be changed. And these changes in their legal system need to be encouraged. But certainly in both cases the advocacy on behalf of these two American citizens through our Embassy and through the monitoring of the legal process in their cases is continuing. And I can give you every assurance that we will do all that we possibly can to get the kind of fair trial that they both deserve.

Mr. Callahan. Thank you. I appreciate that. But that is still not sufficient. You know, the very fact that an American citizen is being held in a foreign prison for five years

without a trial, without being given the opportunity to be heard is unacceptable.

I do not care what the justice system is in Ecuador, I do not care what the justice system is in Honduras, this committee is requested each year to provide the State Department with money to handle foreign affairs.

We do not want to dictate to the State Department how to spend that money but we are going to be forced in these two cases to put an absolute hold on any assistance, whether it be humanitarian assistance or anything else if, indeed, American citizens are being treated in this manner.

If they are guilty of a crime, then they are entitled to an expeditious hearing and they cannot be imprisoned. We cannot sit here as Americans, when they are dependent upon us for trade and other activities, and be told they have a justice system that will not provide for an expeditious hearing. We cannot accept that. Already some holds have been put on monies going to Ecuador and Honduras. More and more of that effort is going to take place even though that creates some type of human rights abuse in a sense because we are not providing medicine, we are not providing food. But we must send them a message. Either the gentleman is entitled to due process or he is not.

And we are not going to tolerate the lack of due process. We do not want to run the judicial system in any country, Honduras or Ecuador or any other country, but we just cannot continue to say, well, we have a problem. We cannot tell the families of these victims that there is a different situation, a different judicial system in Ecuador or a different judicial system in Honduras and we must respect that. We cannot respect that and we are not going to respect that.

And I am going to charge you and Madeleine Albright, as well, we have requested politely a response from her. We have not gotten that. She is going to be calling me because she wants my help on the IMF and all these other problems. She is going to be calling upon me in the next few weeks to make certain that she has adequate money to run the State Department for the next Fiscal Year. But I am not going to receive her calls unless I get some response on these two cases.

And I am very serious about this, Mr. Secretary. And I know that you would do everything in your power if you could wave a wand and get these two people out of prison. We are not prejudging guilt or innocence. We are simply saying that we, as a country, cannot and will not tolerate these human rights abuses to our own citizens. Now, we have to have some more concrete answers.

We expect you to do that in your position and we expect Madeleine Albright to back you 100 percent to see if we cannot get some immediate response to these two particular cases.

Mr. Shattuck. Well, Mr. Chairman, I will go back and do even more than we did in the response to Mr. Kingston. I appreciate the urgency that you see, and that we all see, in having American citizens be treated under international standards with fairness in any court anywhere in the world.

And we will take this up again in our embassies. We certainly will make it clear that this is a matter that has to be resolved very, very expeditiously because of--not because of anything beyond the international standards that should apply

in this case. So, I appreciate that and we will get you a further response.

Mr. Callahan. Keep in mind, Mr. Secretary, that these men have been in prison longer than Harry Wu was in China and all of the efforts and all of the attention we gave to that particular case and all the members of Congress who went over to China to try to get him out of prison because they felt his human rights were being violated. He is not even an American citizen. I guess he is now. That is part of the reason he was imprisoned.

But all of the attention that was given to that one man and no attention on a national level has been given to these two gentlemen and we think this is more important than the Harry Wu situation. Even though I went to China and talked to the Chinese officials about his case. I did not go specifically for that, but while Chairman Livingston and I were in China we did discuss this with the political leadership of China.

But we have got to focus a spotlight on these two cases. If they are guilty, if they are tried in a fair and impartial manner, that is one thing, but to sit there five years in inhumane conditions is just absolutely unforgivable.

Mr. Yates.

Mr. Yates. Thank you, Mr. Chairman.

I would like to follow-up on the Chairman's emphasis on getting something done for Americans who are in trouble in foreign countries. And let me ask again about the Williams case by asking you what do you do in those cases? I would have thought that you would have had somebody camping on that almost night and day in order to make sure that Mr. Williams gets out of the spot that he is in or else has a trial or else is moved. What is being done to help Mr. Williams?

Mr. Shattuck. Mr. Yates, in cases such as this--and this is not the only example that comes before us, sadly--it is immediately an issue for our embassy. The embassies receive instructions from Washington to go in at the highest levels of the government in question--in this case the Ecuadoran government--and make very clear that the United States does not accept the delays in the justice system that are being imposed on an American citizen.

We obviously can go further, if Congress wanted to do that, and threaten particular kinds of actions vis-a-vis the government in question.

Mr. Yates. Five years. And is this going on for another five years? From what your testimony indicates and the facts as I have been able to get them is that no progress is being made.

Mr. Shattuck. Well, that is not actually true. The trial is in process. The first phase of the trial lasted 13 months, due, in part, to extensions that were sought by both sides for additional evidentiary presentation and arguments. So, the trial went on for a long period of time. The trial is in process. And on October 13th of last fall, 1997, the trial judge, based on the findings that he had received to that date, recommended a finding of guilty for Mr. Williams and several of his defendants.

Mr. Yates. What is the offense, the charge?

Mr. Shattuck. The case is now on appeal.

The offense is a narcotics related offense. I wish could

give you the precise citation but it is a narcotics related offense.

Mr. Yates. Would you put in into the record, please?

Mr. Shattuck. Yes, I will.

[The information follows:]

Jim Williams Case

Mr. Williams 17 Ecuadoran co-defendants were charged with illicit association involving laundry of drug money. He was arrested in Ecuador on September 18, 1996. Mr. Williams had been under investigation in the U.S. but had not been indicted.

Ecuadoran authorities did not notify the U.S. Consulate General in Guayaquil of Mr. Williams' arrest for four days. Our Embassy in Quito lodged a protest with Ministry of Foreign Affairs over the lack of prompt notification.

Officials from our Consulate in Guayaquil visit Mr. Williams regularly. Judicial proceedings are still ongoing in his case. His trial lasted 13 months, due in part to several extensions as the judge asked for additional evidentiary presentations as well as arguments by both the prosecution and defense counsel. During that period Embassy and Consulate officials met with Ecuadoran officials at all levels to urge the fair and expeditious processing of Mr. Williams' case.

On October 13, 1997 the trial judge recommended a finding of guilty for Mr. Williams and several co-defendants. The case then proceeded to appellate review by a three-judge superior court. On May 6, 1998 the Guayaquil superior court confirmed the lower court's finding against Mr. Williams and eight co-defendants. Mr. Williams' case will now enter the plenary phase, in which a penal tribunal composed of three judges will review the case and then grant a public audience to each of the defendants before handing down a verdict and sentences. This process usually takes four to five months. If Mr. Williams is convicted, he would be able to appeal to Supreme Court in Quito.

Our Embassy in Quito continues to monitor the case closely, and will contact the tribunal to find out when Mr. Williams will have his public audience with the highest court panel. An Embassy officer will attend that hearing, and will encourage a prompt final decision in Mr. Williams' case.

Mr. Shattuck. And the case is now on appeal. It is in an appellate review by a three judge superior court. The court has not yet ruled on the case. And if this court concurs with the lower court's recommendation there will be a sentencing. If the court overturns the lower court's recommendation it will go back to the lower court with instructions that Mr. Williams be released.

So, in that sense it is comparable to our own proceedings. But, it is--I would agree with you--it is going on much too long. And we have called upon the government to expedite the appeal.

Mr. Yates. We, being who? Who is it?

Mr. Shattuck. The Ambassador. The U.S. Ambassador in Ecuador.

Mr. Yates. Mr. Shattuck, what is the role of your office in an activity of this kind?

Mr. Shattuck. Primarily to bring it to the strong attention of the embassy and have the embassy take the case up. That is

what we do in cases of this kind. That is why we have the Ambassadors in the countries.

Mr. Yates. Well, I can understand that. Do you have representatives or are the ambassadors charged with carrying out whatever instructions you may bring to their attention?

Mr. Shattuck. In every embassy under the instructions of the Secretary of State, we have a human rights officer who is primarily responsible for working with the Ambassador to act in cases such as this, and also on the many other activities that go on in the human rights area.

Mr. Yates. Is that human rights officer affiliated with your office and under your direction?

Mr. Shattuck. That human rights officer is a Foreign Service Officer assigned to the embassy, and is the officer who will work very closely with our office in preparing the annual country human rights reports, in receiving the instructions we send to embassies to take up these kinds of cases, and other actions of that kind. They do not report specifically to me. They report to the Ambassador.

Mr. Yates. Well, then, how do you know about what is going on? If he reports directly to the ambassador, how is your office aware of what is going on?

Mr. Shattuck. Well, when I say, report, I mean the formal employment relationship, if you will. The supervisory relationship is to the Ambassador. But the reports that are sent to Washington, the daily cables that are sent by our embassies give us the information. We can also conduct telephone conversations. But, most often, information about precisely what is occurring, the kind of information that I have just given you here, would come from reporting that is sent through cables to Washington on a daily basis.

Mr. Yates. Well, how would a person have a complaint about the treatment accorded to some people in a foreign country, how would that person best handle that complaint, by going to your office or going straight to the State Department or to the ambassador's office?

Mr. Shattuck. There are three places which have action responsibility here. The primary place, of course, is in the embassy, itself. But then in Washington, there is my office and there is the regional Assistant Secretary. The Assistant Secretary for Latin American Affairs, who has overall responsibility for all the embassies in the Latin American region, and the consular affairs officers, would be engaged most intensively on behalf of American citizens. So, it is not just the human rights officers, it is also those whose sole function in an embassy is to work either on behalf of American citizens or process people who want to come to the United States.

Mr. Yates. Do you have to go through official channels to the ambassador or can you go directly, officially, to the ambassador, as the human rights officer?

Mr. Shattuck. No. I can certainly go directly to the ambassador, yes.

Mr. Yates. Do you?

Mr. Shattuck. Sure.

Mr. Yates. What have you done in the Williams case?

Mr. Shattuck. Well, the Williams case we have instructed

our embassy to continue to press the Ecuadoran government for progress in the case. And I frankly, think that the trial proceedings that have been underway for the last year have resulted in----

Mr. Yates. When you say, instructed, are they required to follow your instructions or would a more proper word be we suggest to the embassy?

Mr. Shattuck. Well, Washington can send what is called instructions to embassies.

Mr. Yates. I mean, you, your office.

Mr. Shattuck. Well, obviously, I would do this together with my colleague in the Latin American Bureau, and when we agree on that, we would send an instruction.

Mr. Yates. That, the instructions then go from the official State Department?

Mr. Shattuck. Correct.

Mr. Yates. Okay. Do you know of the case of Laurie Berenson in Peru?

Mr. Shattuck. Oh, the Berenson case. Yes, yes, I do. Yes, sir.

Mr. Yates. What is being done in that case, please?

Mr. Shattuck. Very similar to what we are talking about here. That case has been a top priority for our embassy in Peru, and for both our Latin American Bureau and our Human Rights Bureau in Washington. We have sought the release of Laurie Berenson under the new amnesty provisions of Peruvian law. She, at this point, is considering, but I think has so far declined to participate in the amnesty approach because she would prefer to contest her basic innocence from her point of view.

But we are seeking her release and we have visited her, I think, about every six weeks to two months recently, in the prison in which she is being held.

Mr. Yates. We visit her, who visits her?

Mr. Shattuck. The State Department consular officer in the embassy in Lima.

Mr. Yates. Okay. You indicated in your general statement that you are trying to protect the human rights of those in Cuba. How are you able to do that or how do you try to do that?

You said through NGOs.

Mr. Shattuck. Well, yes.

Mr. Yates. What is it that you can do?

Mr. Shattuck. In this case supporting those who are looking at the human rights situation in Cuba. We support nongovernmental organizations, some of them based in this country, but we are also providing assistance to nongovernmental organizations, where possible, in Cuba.

Mr. Yates. What activities are they engaged in?

Mr. Shattuck. And then, of course, the other work that is being done there is through our interest section which is the lower level, non-embassy level section that we have, to gather information about cases of people who have been in prison for political or religious reasons, of which there are many. We also work with other governments to put pressure on Cuba for their release.

We also worked very closely with the Vatican in, of course, the latest trip of the Pope.

Mr. Yates. Thank you, Mr. Chairman.

Thank you, Mr. Shattuck.

Mr. Callahan. Mr. Wolf?

Mr. Wolf. Thank you, Mr. Chairman.

Before I ask you a couple of questions--and I have to testify at 11:05, so, if I leave that is the reason I am leaving and I will try to come back. I do share the feelings of the other members. Sometimes our embassies do get clientitis, where they have an obligation it seems to represent the country that they are in more than our own people. And I do think they should be representing our interests and not the interests of the countries they are in.

Secondly, I would hope now that there have been some fundamental changes, additional changes made in the bill that we have with regard to freedom from religious persecution, that the administration will support it. It was reported out of the House International Relations Committee last week by a vote of 31 to 5. I called Erskine Bowles, the night before, and expressed concern that the administration was opposed to it. Quite frankly, and I am not going to share his conversation, but he did not seem to be that opposed to it. So, you might want to chat with him on it.

What are your feelings about this now that we have reported it out and have made these changes?

Mr. Shattuck. Well, first of all, Mr. Wolf, let me commend you, as I have done in private, but also I will do now in public, for your tremendous leadership in this field of religious freedom. Your work, and the work of other members of Congress, has done a tremendous amount to put this issue right front and center into the framework of our human rights policy, as I reported before you came in.

When I was making my opening comments, I cited the issues of religious freedom, and the new establishment of a high-level coordinating office in the State Department. This as an example of how this issue needs to be addressed much more, including where necessary and appropriate, through sanctions of the kind that are under consideration in the Congress.

I will say that there have been changes in the bill. We are looking very closely at them. The central feature of the bill, which is the continued automatic sanctions upon a finding of religious persecution as defined by the bill, is a serious problem. The automatic sanction imposition, under circumstances where there may be other much more effective ways to address the problem of persecution, is something that the administration cannot support. There are many elements of the bill that we can.

And, as I have told you in private as well as in public, we want to continue to work with you and other Members on this issue. I have no doubt that there can be some form of appropriate legislation on this. But the automatic imposition of sanctions, based upon a finding of persecution as defined in the bill, in some instances would do more harm than good.

And, in fact, I think there are those who the bill would seek to protect who would say the same thing.

Mr. Wolf. But you have total and complete waiver authority under the bill. Absolutely, total complete. We have given the President total waiver authority.

It sounds like you have come around a good bit. I would hope that you would come the additional way because this bill will institutionalize the process long after you have left, long after Mr. Clinton has left, long after I have left and whether it be a Republican or a Democratic administration there will be a formal process.

And I would ask you, respectfully, to come up and embrace this bill and support this bill. I spoke to Mr. Bowles and my sense is that he did. Now, I cannot say that he did because it was a telephone conversation but we have really reached out and made significant changes by not trying to tie your hands and have given you total and complete waiver authority which would be helpful in all of the cases that have been mentioned and all of the issues that are going to be addressed by different people here, would help us with regard to that.

Mr. Shattuck. If I could, Mr. Wolf, respond to the waiver point because I think in many ways that goes to the heart of our continuing concern about the bill. The waiver authority, we believe, would send a very bad signal, particularly in those instances where it is exercised. In one case it is exercised and in another case it is not.

The distinctions are going to be lost on both foreign governments and the victims of persecution if in the case of country X for various reasons the President waives the sanctions, and in country Y they get imposed. You know, that sends a signal that the most drastic kind of remedy can be imposed in one country and not in another.

You know, in addition, I think it puts the President in the position of constantly second-guessing, on a finding of fact, the question of whether sanctions should be imposed.

Let me be very clear, we are not imposed to sanctions in cases where they can now be imposed under current law. And, as you well know, there are a number of instances around the world in which sanctions have been imposed for human rights reasons, and there are a lot of factors that went into those sanction decisions. We could make even clearer in the legislation that religious persecution should be one of those factors. But the automatic imposition and the waiver approach we do not think is the right way to go. But we do want to work with you, I want to make that very clear.

Mr. Wolf. Okay. East Timor, American military are training Indonesian military. I plan on offering an amendment to strike, to prohibit that. The violence continues on the island. With us bailing Indonesia out, here is an opportunity to really work with the Indonesian military in a positive way. I mean if they were to draw down the military on the island to 10,000 or 5,000 the message that that would send with regard to the IMF and so many others would be so positive.

Why can't you use this opportunity that is taking place with regard to the bailout to encourage the Indonesian government to be more sympathetic to stopping what is taking place on East Timor and draw down the garrison?

Mr. Shattuck. Well, the East Timor issue is one that you and I have both worked a great deal on. I cannot remember which of us was there most recently, but I was there about 10 months ago and had a chance to talk with East Timorese leaders, including Bishop Bellow. I also had discussions with the

Indonesian military. I made very clear the point you just made, which is the United States believes that a reduction in troops would be a significant sign that a process of getting this thing from such a repressive situation to a more----

Mr. Wolf. But they have not been--I want to cover one other subject before my time runs out--but they have not been drawn down. You have sent former Vice President Mondale out there to speak to them. We are bailing them out with American taxpayer money; 200,000 people out of 750,000 have been killed in the last 20 years. Bishop Belo got the Nobel Peace Prize. It is on everyone's mind.

If you can never get them to draw the garrison down now they will never draw the garrison down. And I think it is important for this administration to make that case. Quite frankly, it would help the administration in passing IMF. It would help the Indonesian government and it would help, obviously, the people on the island who are--there is reign of terror and it has not ceased since you have gone on.

The other issue that I would like to briefly discuss and if you could comment on both at once. One is the missionaries in Colombia that have been kidnapped, that have been missing for five years. And, quite frankly, I do not think that this administration has done a very good job of articulating publicly to show the interests that it has let alone in the case of Ecuador. I mean it has done almost nothing publicly. There may be a lot of activity privately but I think by speaking out publicly--and after you cover that, if you would tell us what you plan with regard to Algeria with 80-to-100,000 people who have been slaughtered. So, if you would cover these two issues for me.

Mr. Shattuck. Well, you have touched on two of the toughest accounts in the world, Colombia and Algeria. But let me speak very briefly to both of them because I know you have to leave.

In the case of Colombia, and specifically in the case of the American missionaries who have been missing now for up to five years, I have personally met three times with the families of those missionaries. This is a case, again, where a great deal of intensive work has been done through our embassy. This is probably even harder, much harder than the Williams and the Valle cases because these people, sadly, are in the hands of the guerrillas somewhere out in the jungle. And, of course, the government is not the best source to get to those guerrillas.

We are also working behind the scenes to try to find other governments that have contact with those guerrillas, and we have. And we have raised the cases through third parties that way. We have, as a result of this work, over the last two years in particular, had information more recent than was the case of sightings of at least one of the individuals who is missing. That information is now about 12 to 14 months old, but it was information that we got as a result of that kind of third-party pressure.

I do not have an easy answer to this. I wish I did, Mr. Wolf. I mean I do not know how one can reclaim American citizens who have been captured by guerrillas. But we have got to keep the focus up on this. I do not think it necessarily helps to put the public spotlight on that because then you do not get the third countries going in and doing what I am talking about.

In the cases of Algeria----

Mr. Wolf. Do you plan on going there?

Mr. Shattuck. To Algeria?

Mr. Wolf. Yes.

Mr. Shattuck. I may. But I----

Mr. Wolf. Would it not be healthy if you did?

Mr. Shattuck. Well, I tell you what I would prefer--and I would like to get your view on this--I would prefer to the UN mechanisms in there and that is what we are pressing to do.

The UN investigation----

Mr. Wolf. I do not think that would--you know, the UN turnover in Srebrenica, turned over hundreds of people who were slaughtered. We now know they were slaughtered. The confidence level in the UN is not very, very high.

I would urge you to go to Algeria. If you go to Algeria, I will go with you, but I would urge you to go because then you go as a representative of the President of the United States. So, I think we should have less conversation with the UN on this and more conversation within the Clinton Administration.

Mr. Shattuck. I appreciate that. And, frankly, I think I am very likely to. Right now we are focusing on it in the UN Human Rights Commission, trying to get the UN Special Rapporteurs in there, as well as putting a spotlight on it through the Commission.

But, you know, we had an American visit there just two weeks ago, very unsatisfactory one I might add, in terms of the transparency question. This, too, is as complicated an issue as Colombia because you have got massive violence being conducted outside of the government context. You have got various terrorists groups that are going after each other. You have certainly got a government that is not doing enough to stop that. You have got a lack of focus in terms of transparency. You have the inability of international human rights organizations, some of whom are represented in this room, to get into Algeria. We have been trying to assist to get them in as well.

The issue is getting in, getting the facts and then trying to draw attention to who is really responsible here. There is no question about it. The violence, particularly the violence against women is horrendous. The numbers are staggering, as you say. But let us discuss that further.

Mr. Yates. Would the gentleman yield?

Mr. Wolf. I will yield, yes.

Mr. Yates. What is the role of France in all of this?

Mr. Shattuck. Well, France, of course, has historically had a very close association with Algeria. And that does not make it a particularly effective source of support to try to put pressure on Algeria. The French/Algerian relationship is not a good one. And the French government, I think, is concerned themselves about possible terrorism in France.

Mr. Wolf. I have no further questions.

Thank you, Mr. Chairman.

Mr. Callahan. Ms. Pelosi?

Ms. Pelosi. Thank you very much, Mr. Chairman.

Mr. Secretary, welcome. I thank the Secretary for the work that he has done and the reputation that he brings to the position that he holds. He knows that I have a high regard for

him and a low regard for the Administration's policy on human rights, particularly, in China. I say a low regard for human rights in general because just quoting you as to whether if you are going to exercise it one place, you have to exercise it in another place. The selective application of standards for human rights is, I think, what part of the problem is here.

I say with great regret and great sadness that I think it would be hard to think of any other entity or any other administration or person or committee you could name that has done more to set back human rights in China than the Clinton Administration. I say that because the Administration is never where you left them. They come in and say we are going to link trade and human rights. Whether you agree with the policy or not, it is what they said. Then they turned their back on their own policy.

In doing so, they said we are going to press for a resolution at the UN, it is appropriate to do this in a multilateral forum, one that is dedicated to promoting human rights. And then they renege on that, turn their back on that.

That particular renegeing was a slap in the face to those who sacrificed their lives and risked their personal security in China and those who worked throughout the world promoting human rights in China. It was a grave disappointment. I think it undermines the work of the UN Human Rights Commission and I do not know why we would even fund such an organization because it is just a tool of whoever can buy the votes. I say that and I can document that.

I also think that the President's contention that economic reform will lead to political reform has been proven false. Indeed, the economic growth that China enjoys is mostly on the backs of exports to the U.S. Nearly 40 percent of China's exports come into the United States. This past year, 1997, the US deficit with China was \$50 billion. When we first started this debate, Mr. Chairman, it was \$3 billion at the time of Tiananmen Square. Now it is \$50 billion.

And that money, because of a lack of market access for most products made in America, I might add, those unfair trade practices give the regime the money that they then spend in Europe to buy from our competitors. They buy not only Airbuses, but they also buy silence at the UN Commission. Offers of trade and aid to other members of the Commission make it a non-starter in terms of trying to do anything at the UN Commission.

But the United States turning its back on its leadership role to promote human rights in a human rights forum is very hard to explain to anyone.

I understand there is a report in today's South China Morning Post that Secretary Albright may be going to China later this month to prepare for the President's upcoming visit. Is this report true? What human rights issues do you think she will raise with her Chinese counterpart? What action does the Administration expect China's government to take on human rights in order to smooth the way for the President's visit? I have a couple of other questions related to that but if you could just start with that, Mr. Secretary?

Mr. Shattuck. I think the Secretary is very actively considering a trip to Asia in the very near future, probably in the next several weeks. I do not believe that has been

announced, so I will not announce it here. And of course her travel is almost always dependent upon major events going on in various parts of the world.

I really appreciate, as I have said to you on many occasions, that your own leadership here is towering on the subject of China. I know that you disagree with the administration on these issues and I respect that disagreement.

I believe that what we are doing, and what the Secretary's possible trip to China illustrates, is using as points of leverage, major events in our relations with China, under the overall approach which the President has set of engaging with China. We engage in many different dimensions, but very intensively on the issue of human rights.

Specifically, the three events that I am referring to are the summit in the fall, the Human Rights Commission, and the summit that is upcoming, and all the discussions with the Chinese around that.

The human rights abuses in China are major, and the changes that have occurred are nonsystemic. That is a very basic point that I will put out there, to begin with.

But we have used the leverage of these events, I think effectively, much more effectively, frankly, than some of the leverage that we tried to use earlier, which did not succeed.

Certainly, the process of getting China's attention to the signature and ratification of a major international covenant on civil and political rights is one aspect of that. It is not an overwhelming aspect, but it is a very important aspect of it.

The Secretary goes to China, and certainly, when the President goes to China, there will be some more systemic issues that will be pursued. For example, the release of prisoners who have been imprisoned under the counter-revolutionary crimes that have been changed under Chinese law. We will, and are continuing to press China to review all of the sentences of persons who have been sentenced under the counter-revolutionary crimes approach.

That would involve a systemic change and the release of a large number of prisoners, not just individuals on medical parole. These are the pressures that we have brought to bear recently. Also the issue of Tibet.

I believe that Tibet has shown no progress. In fact, significant additional problems have been documented in our human rights report this year. The Secretary has taken a very strong stand on this by appointing one of her highest officials, the policy planning director, Greg Craig, to be the Secretary's special coordinator on Tibetan issues.

Ms. Pelosi. Will he be going with the President to China?

Mr. Shattuck. I do not know the answer to that. I would certainly hope so.

Ms. Pelosi. Well, that would speak more loudly than anything--

Mr. Shattuck. Right. I appreciate that.

The issue of religious freedom and the release of jailed persons, particularly Catholic and Protestant figures, but also Buddhist figures, particularly in Tibet, is going to be on the agenda of the Secretary's trip.

We expect additional releases to occur in the period leading up to the President's trip. In any event, this is the

method we are using. I believe that by my bureau holding out as long as it did to pursue the human rights resolution in the Human Rights Commission, we were able to deploy the leverage of the Human Rights Commission much more effectively than we would have if we had dropped it earlier some people within our administration wanted. We pressed it all the way up, making clear throughout that our position was going to depend on the situation at the time the commission met, and consultations on the commission beforehand. Again, I can appreciate that you certainly would have liked us to go through with it, no matter what. But we wanted to use this process to get some developments in China.

Ms. Pelosi. Frankly, Mr. Chairman, I know that in the interest of time we will not have more opportunity to pursue many other avenues with Mr. Shattuck, but I would just say that the Chinese have refused to meet with the Special Coordinator on Tibet, that you got nothing but a signature on the covenant, and that is not the ratification or implementation of the covenant, and indeed, there are at least a half a dozen or more countries, which have signed the covenant, and we have dropped pressing the resolution at the U.N. Commission. It is disingenuous for us to say we did not want to press for this because we got a signature on a covenant.

Indeed, we have said all along the guarantees contained in the Chinese constitution are what we want the Chinese Government to give their people. Even that would go a long way, but that is not happening either.

It is a conversation that goes on and on, Mr. Chairman, but I want to associate myself with your concerns that you expressed at the beginning of your remarks about the treatment of Americans in other countries. You can just imagine how they treat their own people, if they treat a person with the full force of America behind them in that way. I know we will hear from Mrs. Williams later on this. I also want to associate myself with some of the remarks made by Mr. Wolf about Indonesia. It is just appalling that this committee has voted, over and over again, about not allowing IMET for Indonesia and the Administration persists in doing training in urban warfare techniques to troops in the Jakarta Regional Command, when this committee has acted specifically, because of what is happening in East Timor against the people there. IMET is our way of speaking to the Indonesians about it.

But they can just go around restrictions, as everybody else can just go around them.

I associate myself also with Mr. Wolf's concerns about religious persecution. I mean, we have come down to a discrete, finite issue, and to argue that a way for which we give the President discretion to use his judgment on when it would be useful to exercise it or not, seems hypocritical in light of the fact that we are selective in how we promote human rights, one place or another, depending on how much money is coming in and who is on the receiving end of that money.

But Mr. Secretary, I do want to commend you for the Clinton administration policy in Bosnia. I think the latitude that you have been given there, the work, the commitment that you have made there, has really paid off. I know there are larger geopolitical issues at stake or we would not care about the

Bosnians either.

I am talking about the Administration bolstering NATO after its failure to deal with Bosnia at its own doorstep, and we had to do that and contain the conflagration that was possible there.

But, as I said at the beginning of my remarks, I have a high regard for you, and for what you have done, and I think that the Bosnia situation is one that you can be proud of.

Thank you, Mr. Secretary.

Mr. Callahan. Thank you very much.

Mr. Packard.

Mr. Packard. Thank you, Mr. Chairman, and I will be brief because I know that time is short. I have two questions. I will only ask one and ask you to respond to the second, perhaps in writing to the committee.

The one that I would like you to respond to because it may be of more length than what we would like to discuss, I would like to know exactly what the policy of the administration is in reference to the linkage between economic foreign policy and our foreign policy on human rights, how those interplay.

Obviously, when we discuss IMF and a variety of other funding and programs and agencies, I want to know how much this administration takes into account human rights issues and violations as they develop their economic recommendations and policies to the Congress. And if you would respond to that, in writing, I would appreciate it.

[The information follows:]

[Pages 466 - 470--The official Committee record contains additional material here.]

Mr. Packard. This question should require just a simple answer.

Since the hand-over of Hong Kong, which took place last July 1, has there been any indication of a transfer of human rights violations into Hong Kong from the Chinese mainland?

Mr. Shattuck. I visited Hong Kong in December. I would say, very cautiously, so far, so good. There are certainly things to watch for, particularly some of the new legislation that may be coming down the pipe to implement some of the treason laws, and other issues that could cause serious problems for human rights. But by and large, Hong Kong has continued to permit basic demonstrations, basic freedom of speech. I think some of the press may be engaging in self-censorship but we have not had any examples of individuals who have been muzzled in Hong Kong.

I should say that my friend, Hong Dong Fong, continues to be able to operate out of Hong Kong and into China effectively. He is a very active person in the field of human rights, as you may know.

I think we are watching very closely to make sure that this turnover actually continues to provide the basic guarantees of the law and the constitution of Hong Kong that existed before the turnover.

Ms. Pelosi. Mr. Packard, would you yield on that point.

I wanted to call to your attention, because the Secretary had spent some time talking about the development of the rule of law in China, the report that was in the paper yesterday. It says, ``Hong Kong Ruling Stir Fears Over Law System'' and the point in the article is that a series of Government rulings in recent weeks have stirred fears that the rule of law is being eroded as Hong Kong is being absorbed into China, and it goes into the particulars.

I thought you might be interested in that, because there is grave concern over that, and for those of us who watch Hong Kong, this would have a terrible impact also on the economy of Hong Kong, and its success.

Mr. Packard. Thank you.

I was there at the hand-over, and the one country, two policies concept, in my judgment simply cannot work, not on a long-term basis. It cannot work, it will fail, and I would be interested in knowing, as time progresses, how that failure is unfolding.

Either Hong Kong is going to have to submit to China's policies, or other provinces in China are going to rise up and say we want what Hong Kong has, in terms of freedoms and basic human rights.

One or the other has got to happen. They are not going to allow two systems. It is a house divided against itself. It cannot succeed. It sounds good in theory, but it just cannot succeed, and I think that the thing that we would be most concerned is if Hong Kong deteriorated into a typical province of China, rather than the other way around.

Mr. Shattuck. Well, Mr. Packard, I know time is short. If I could just make a couple of quick points on that because it does go to the longer term issues in China. Whatever differences we may have over how to go about the situation, I think that the prospect that provinces in China are going to want what Hong Kong has, as you put it, are greater than the other way around.

An article appearing in yesterday's Wall Street Journal points out that economic reform is seen as the wedge to open politics by a number of Chinese dissidents who are now more active in China than they have been previously. By no means active in the sense that we look at it in the West, or outside of China. There is a lot of restriction, to be sure. But the forces of legal reform, the forces of economic reform, and the forces of political reform, are going to begin to converge. Now, I do not want to make any rosy predictions. I am not doing that. I am just saying that there are some very powerful forces at work. Let me talk about some of this in response to the question you have put to me about human rights and economic policy.

We do not believe that economic forces bring about political change, by definition, or automatically. There is a lot more that needs to be done. But they can in fact cause some conditions which can help produce political change. I think in the example of Hong Kong to the rest of Southern China is a very strong one. Its economic power is well-known, and certainly the legal reforms which we want to stimulate further in China could bring about these kinds of changes. That is why we are proposing some additional programs to do that.

Mr. Packard. Thank you, Mr. Chairman.

Mr. Callahan. Mr. Secretary, we thank you for your testimony, and I might suggest that what you do is establish a chair in your Department to respond to individual cases that Members of Congress have.

It is too broad, and we are told to go to the State Department, we are told to go to the embassy, but we need a human rights advocate to protect American citizens' interests. There are many other cases as well. You have the Davis case and the Barnes case in Peru, that Members of Congress are trying to get answers to, and we can no longer hide behind this veil of some complexity of judicial law in foreign countries.

We have to have an advocate. We should have an advocate visiting the prison site, at least once a week, of every American in jail, to make certain that his human rights are not being violated. We are talking about human rights. We are not talking about law violations, and we need someone visiting these people.

Just the very fact that we are visiting them, weekly, would give an indication to the Government of whatever country, that America is looking at this and that we are not going to tolerate it.

So I would suggest, due to your busy schedule, due to the busy schedule of the Secretary, so we do not have to call you every week every time we find out a little something, that you designate a human rights advocate for American citizens imprisoned in foreign countries.

So we will have someone we can call, who will know everything about that case, who can visit, who can pressure the embassy in these various countries, to visit these prisoners. We do not want to coddle felons. We do not want to prejudge guilt or innocence. But when you have laws in countries such as Honduras, where it requires a response to an inmate's plea in 30 days, and they wait 18 months or two years to respond, we have to have an advocate.

So we cannot resolve this today, but you can resolve our problems, and eliminate a lot of human misery, if we have a human rights advocate for Americans in prison in foreign countries, where these people and these families can call them every week, where they can have someone they know is on their side.

You say the FBI says do not get involved, there might be some problems here, and then you have the embassy saying we do not want to cause an international incident.

We need someone we can call every day, who knows what we are talking about, and who can give us an immediate response.

But if you would consider that, we appreciate very much your testimony and we look forward to a continued working relationship.

Mr. Shattuck. Mr. Chairman, just one quick comment on the last point because it is a very important one to you, and to me. I appreciate it.

I just want to put on the record the fact that there is that point of contact right now. We can step it up through more personal involvement by myself and others. But it is the Office of Emergency Services of the Bureau of Consular Affairs in Washington. Its sole function is address problems of American

citizens overseas, who are in emergencies such as judicial emergencies or car accidents, or any number of other kinds of problems. That is the place where families can take their cases. They are advocates.

Now we will do more. We will do more.

Mr. Callahan. We cannot debate that today.

Mr. Shattuck. Sure.

Mr. Callahan. I am saying I know that, and that is good, and I know if someone gets a speeding ticket in France, we ought to have someone they can call.

We are talking about human rights violations, and we are talking about someone with compassion, that the families of these victims can call, who can give them immediate attention.

But we are not asking that you spend \$100 million. We are asking for one desk that simply handles human rights problems for American citizens in prisons in foreign countries. That will not take a full week of everybody's time. That will not take a million dollars a year. It will just give us an immediate ear to someone who understands particular problems and who we know is an advocate of the abolition of these human rights violations, rather than to go through the normal bureaucracy, or the Office of Legislative Affairs who are more concerned about some Congressman's daughter not being able to catch an airplane in France.

You know, we are concerned about that, but this needs serious, direct attention, that you can simply solve with a small amount of taxpayers' dollars.

Mr. Shattuck. No, I appreciate that and my answer was not intended to mean we will not do that. I guarantee we will do that. We will also work within and strengthen the current system that we have, because, frankly, we need all these people to engage. It cannot just be one person in terms of observing trials, and the kinds of things that you are talking about. But we will do that, and I appreciate that that has been a good focus, from my point of view, of this hearing. It certainly has raised my awareness of the concerns that you have about this. Thank you very much.

Mr. Callahan. Thank you, sir.

Mr. Packard. Mr. Chairman, may I make one comment.

I want to thank the State Department for their efforts in Russia on the recent kidnapping of missionaries there, and their release.

Mr. Shattuck. Thank you very much.

Mr. Callahan. All right.

Kenneth Roth and Mira Baratta.

Mr. Roth, we will receive your testimony, and we will accept a written statement, if you have one, for the record, for both of you, if you have it, and recognize that we are kind of pressed for time, and abbreviate your opening statement to the committee. Mr. Roth.

Mr. Roth's Opening Statement

Mr. Roth. Thank you very much, Mr. Chairman.

I appreciate your holding this hearing today. We, at Human Rights Watch, believe that the work of this committee has a very important and positive influence on human rights.

Obviously, U.S. aid can be directed to support positive initiatives around the world. Conditionality on that aid can also be very important, both as a lever to promote positive change by abusive Governments around the world, and perhaps most important, to make sure that American tax dollars not made complicit in human rights abuses by supporting abusive forces.

So we appreciate the work that this committee has done. I understand the press of time, so I will simply summarize my remarks by first making a few brief, general comments, and then raising a number of particular countries that may be of interest to the committee.

First, at a general level, I thought that I would begin by commenting on the President's trip to Africa, since that has had both some positive and negative dimensions to it.

On the positive side, I think that his speech in the Kigali Airport broke some very important new ground by first stressing that U.S. justice assistance, that is to say, U.S. efforts to build a justice program in Rwanda, in Central Africa as a whole, as well as related assistance to human rights monitoring, would focus not only on past abuses, but also by current abuses.

That is to say, not only abuses by rebel forces today, but also abuses by Government forces, and that even-handed application of justice funds is very important if we are going to break out of the cycle of violence and retribution that is currently plaguing Rwanda.

The focus on the Rwandan genocide during his remarks was also important in stressing his acknowledgement that the United States and the international community failed the Rwandan people when hundreds of thousands were being slaughtered, and I hope that his remarks will serve as a spur to more aggressive action, should genocide or comparable killing break out elsewhere in the future, with perhaps Kosovo today the greatest immediate threat.

The Entebbe Summit of Central African leaders was also useful, on the one hand, because it stressed the commitment of those leaders, in broad terms, to human rights and the rule of law.

There was an unfortunate statement in that summit final document which suggested that the United States countenanced various paths to democracy, which while it may sound fine in the abstract if you are only talking about the differences between Westminster democratic systems and a presidential system, or something of that sort.

In Uganda, it was understood as permitting President Museveni's nonparty movement system of so-called democracy, which is a sham, which is clearly below international human rights standards, and unfortunately, the President did not find an opportunity to make U.S. disapproval with that pseudo-democracy clear.

The President also made an unfortunate statement reversing an excellent speech that had been given by Assistant Secretary of State for African Affairs, Susan Rice, on Nigeria, in which she had said just two weeks ago, that the United States would not tolerate General Abacha simply removing his uniform and running for office, and the President, in South Africa, indicated the U.S. Government policy might be the contrary.

I saw his aides quickly scrambling to undo the damage, and I hope that there can be a reassertion of the Susan Rice position as soon as the President gets back.

On China, and I want to second Ms. Pelosi's remarks earlier in the day, and simply add one more point in that regard.

I mean, I think China is very much a defining factor in administration human rights policy.

Secretary Shattuck, as well as the administration as a whole, have a tendency to put a Pollyannish spin on developments in China, to portray them as better than they are, and I think that that extends to U.S. policy as well.

The administration has touted the benefits of its engagement with the Chinese Government, but I think in fact, if you go back and look at even the small concessions that have been secured, it has never been engagement alone that has been responsible. It has been engagement coupled with pressure.

My concern is that the administration is in the process of giving away its every source of pressure, by abandoning the resolution before the U.N. Human Rights Commission in Geneva, by announcing the presidential visit to Beijing without getting any human rights preconditions.

It is doing all of this in return for simply empty promises. Yes, it is nice that the Chinese Government has promised to sign the covenant. It will be better, still, when it actually does so.

But there has been no indication that the Chinese Government has been willing to move from the level of rhetoric to that of conduct.

At best, we get the release of a hostage here or there, usually kicked into exile, but we do not have anything approaching the kind of systematic change that would justify the abandonment of pressure that the Clinton administration is so willingly casting aboard.

The kinds of things we need to look for are things like the release of, or the review and the release of most of the counter-revolutionary prisoners, those who are serving prison terms for a crime that no longer exists.

We need an improvement in respect for human rights and religious freedom in Tibet, not the worsening of conditions that we currently witness.

We need greater respect for religious freedom and political freedoms across the board in China, rather than just the status quo, empty promises that are not matched by action on the ground.

And my question to the administration is, What is it going to do, having abandoned the various sources of pressure to move the Chinese Government from empty promises into actual changes in their conduct?

I do not know the answer to that. I have a hard time figuring out what the administration is going to accomplish, and I urge this committee to do what it can to put more muscle into the engagement with the Chinese Government.

Let me just quickly run through a few particular countries of concern to the committee, that I think are relevant to the bill that it is considering to this year's appropriations process.

First, with respect to the Democratic Republic of Congo,

the Faircloth amendment, last year, prohibited aid to the Congolese Government unless it cooperated with the U.N. investigation. And I note that just over the course of the last week, in a country that does not permit autonomous demonstrations, a crowd came and threatened a U.N. investigative team in the town of Mbandaka, where it had come across a mass grave of victims, that is to say, refugees from Rwanda who had been slaughtered by forces operating with the connivance of the Congolese Government, and under the allegation that this was supposedly a sacred burial ground, the investigators were literally chased from Mbandaka.

That is hardly the kind of cooperation with the U.N. that would be respected.

Human Rights Watch has insisted that before aid go forward, that there should be demonstrable progress in meeting certain minimal conditions, including genuine cooperation with the U.N., lifting of the ban on opposition political activity, and an end to the harassment of civil society, and that until these kinds of conditions are met, we should be looking to channel much-needed aid to the Congolese people, that is to say, through NGOs or through local Government, but not through the central authorities who are responsible for this oppressive conduct.

In the case of Rwanda, I already mentioned the broad approach to justice that the President outlined in his Kigali Airport speech.

On the question of military aid--and I fear a press for military aid as the threat on the part of the rebels, the Hutu rebels who were responsible for the past genocide--as that threat increases I fear that the U.S. is going to be pushing for military aid, and we believe that that would be inappropriate so long as the Rwandan army continues to pursue its counter-insurgency strategy through the indiscriminate slaughter of people simply because they happen to be of the Hutu ethnicity.

We believe it is essential that the Rwandan Government halt this kind of slaughter and that it begin actively to bring to justice those who have been responsible for it.

The U.S. embassy has been far from helpful in this regard, in that it tends to portray itself as the public relations department of the Rwandan Government rather than as representatives of a Government that is committed to ending this kind of indiscriminate slaughter.

In the case of Bosnia, we note that last year's appropriations act prohibited assistance to communities that harbored war criminals.

As you undoubtedly know, the administration has waived this, and instead has said it will simply vet the recipients of U.S. aid to make sure that it only goes to the so-called moderates, that it does not go to people who are themselves complicit in war crimes or in harboring war criminals.

Unfortunately, there are still some 40 indicted war criminals who remain at large in the Republic of Srbska, the Bosnian Serb sections of Bosnia, and as we follow the administration's effort to conduct vetting of the recipients of the aid, we find it to be wholly inadequate.

We thus would urge that this restriction be reinstated in

this next year's appropriations bill, and that at the same time the committee put what pressure it can on the administration to move forward with efforts to arrest those indicted war criminals who remain at large.

In the case of Turkey, we note that persistent torture, curbs on free expression, and indiscriminate warfare in the southeast remain quite serious problems.

We have noted that this year, the administration is not asking for either economic support funds or foreign military financing for fiscal year 1999, and we welcome this as at least consistent with section 502(b) of the Foreign Assistance Act, even if it was not officially inspired by those restrictions.

We believe, however, that the same logic, that is to say, the logic that would restrict military assistance or economic support funds from going to a systematically abusive Government like Turkey, should also bar the military transfer that is currently pending, of 145 attack helicopters, that is to say, the same kinds of helicopters that are used to level village in southeastern Turkey and that have been responsible for so much of the suffering and slaughter in that part of the world.

In the case of Colombia, we note that serious abuses persist not only by rebels but also by the Colombian military and its paramilitary allies, and that perhaps the chief reason for these atrocities are the continuing impunity that members of the military and their allies enjoy.

The army continues to ignore the dictates of the constitutional court that situations of abusive military officials be considered by the civilian courts, rather than the military courts which have, to this stage, served as a guarantor of impunity rather than of justice.

We also believe that the Colombian Government is subverting the intent of the Leahy Amendment. As you know, the Leahy Amendment would prohibit the delivery of military aid to any unit that is involved in abuses, and given the Colombian Government's inability to demonstrate that its existing military units were free of abusive conduct and of abusive officials, it simply created two brand-new units, and the aid has been funneled to these units instead.

Unfortunately these units have been created under conditions of complete secrecy. We have no idea what they are, where they are, what their name is, what their membership is, and this is a sham that is subverting the intent of the Leahy Amendment, since we have no possibility of monitoring compliance with it.

We would urge that next year's language in the appropriations bill address this kind of subterfuge, so that we can, if we are going to be giving aid to the Colombian military, that it be done in situations of complete transparency, so we can make sure that American taxpayers are not subsidizing indiscriminate killers.

I note that our opposition does not extend to aid to the Colombian police, which as far as we know remains relatively free of abuse but our concern is aid to the Colombian army.

With respect to Mexico----

Mr. Callahan. Mr. Roth, let me just interrupt you and tell you that we have read your opening statement. We have that. We cannot go through these problems country by country. I know you

still have concerns in Mexico and Egypt, and Israel. You have concerns about women issues, discriminatory policies against women. We cannot go through this entire statement. Time will not permit it.

So if you would just generalize the theme, worldwide, of the needs of your organization, and we will have time to hear everybody, because we have to be out of here at 1:00 o'clock.

Mr. Roth. Fair enough. Let me just then, since you obviously have read carefully my statement, I will simply mention one thing that I neglected to put in it, and should have, and that is our strong endorsement of the continued provision of funds, if not an increase in funds for international justice efforts. The Secretary talked about the very effective delivery of \$1 million of U.S. aid to the International Criminal Tribunal for the former Yugoslavia, to investigate the killings in Kosovo.

It is that kind of flexibility and active support for international justice, that I think it is essential for the U.S. to be behind, and appropriations from this committee are obviously a key part of that.

Thank you very much.

[The written statement of Mr. Roth follows:]

[Pages 479 - 489--The official Committee record contains additional material here.]

Mr. Callahan. Well, we hate to cut you off short, and I know your passion, and I know your sincerity and your concern. We know the great things that your organization does, but time is of the essence.

Ms. Baratta.

Ms. Baratta's Opening Statement

Ms. Baratta. Thank you, Mr. Chairman, Members of the committee.

I appreciate the opportunity to testify on behalf of Freedom House, and I will be brief, and unfortunately, to be brief, I am going to focus on some of the negative trends that we have found in our annual survey, Freedom In The World, that we have published for the past 25 years. In going through those trends, I will just make a few comments on what we think may be solutions, or ways to achieve some progress in these areas.

The first negative trend that we have seen is the continuing spread of what we refer to as ``the virus of ultranationalism.'' No country in Central and Eastern Europe, or the former Soviet Union is immune. Collectively, ultranationalism constitutes the gravest threat to democracy since the death of communism, and the poster boy for that type of ultranationalism is Slobodan Milosevic, whose ethnic supremacist, and, indeed, genocidal policies led to the death of hundreds of thousands in Bosnia, the displacement of 2 million people, and who is, at present, firmly entrenched in power and heightening repression and ethnic cleansing in the former autonomous province of Kosovo.

This region, where there are 2 million ethnic Albanians, has been under martial law for nearly a decade and we need to watch it closely. If the situation is not resolved there, we could see not only more deaths, another war, but the involvement of our NATO allies on separate sides.

The second negative trend related to that is the balkanization of democracy in Central and Eastern Europe. What we are seeing is the development of two tiers of democracies, electoral democracies that are true democracies, such as Hungary, Poland, and the Czech Republic, and then Albania, Bosnia, Croatia, Montenegro, and Serbia lagging far behind them in terms of democratization.

The third negative trend is really the abrupt setbacks to democracy in Africa set against the genocide in Rwanda. This continent's democracies are generally weak and under attack. Tragically, while some of the Governments have changed in Africa, they are often replaced by regimes which are not demonstrably better.

For example, President Mobuto's dictatorship collapsed, but under Laurent Kabila, the Democratic Republic of Congo has not seen any real improvement in civil liberties.

Moreover, as I think Ken Roth rightfully pointed to, he's thumbed his nose at international efforts to investigate war crimes.

And let us not forget that some of the most egregious violations of religious freedom can be found in Africa and countries like Sudan.

The fourth negative trend I would like to call to the committee's attention is the absence of improvements in the People's Republic of China's human rights record, the continued repression of Tibet, widespread religious persecution of Christians, Muslims and Buddhists, flourishing slave labor camps, and the erosion of representative governance following the transfer of Hong Kong, mark the most disturbing aspects of China's human rights policies.

While the administration's red carpet treatment for China has clearly yielded business deals for American firms, it has not yielded any demonstrable improvement in the area of human rights. The question is how to try to reverse these trends.

U.S. leadership is absolutely dispensable. The U.S. must launch a sustained effort to provide support to the world's fragile new democracies, and democratic forces, in undemocratic countries. What do I mean by support? Foreign assistance. Of course, the purview of this committee, leaps to mind. The U.S. should continue to provide democratization assistance to opposition groups, nongovernmental organizations, and independent media.

It is even possible and advisable to provide such assistance in countries like Serbia, if it is strategically targeted and does not serve to bolster corrupt nondemocratic elites. Should Ukraine's foreign aid be cut by 50 percent? I would hope that democracy assistance is spared the ax.

The administration and Congress should also consider how to condition the other non-democratization assistance that is being provided to countries that we rate in our survey as partly free, or not free at all.

However, foreign aid is not enough. Visible, meaningful

political support is critical as well. The United States can send powerful signals through its diplomacy. Even photo ops can have an enormous impact under certain conditions.

For example, in Africa, this means that the Secretary of State must ensure that her future tours of the continent are dominated not by visits to countries led by strong men, but to genuine democracies with legitimately elected leaders.

It also means that while it may be acceptable for President Clinton to express regret for slavery in the United States, more than a century ago, it is also incumbent upon him to criticize and enact policies that punish those nations that still engage directly in or tolerate such practices today, particularly against women and children.

In the Balkans, that means not certifying unfree or unfair elections, not making empty threats, not backing off from previous warnings such as the so-called Christmas warning, which we have not heard since the situation in Kosovo has so dramatically deteriorated, and it means promoting genuinely democratic forces in Serbia, in Croatia, and Bosnia.

In China, that means not sugar-coating China's deplorable human rights record. It means meeting with pro democracy leaders in Hong Kong, and according His Holiness, the Dali Lama, the appropriate respect and recognition.

It also means meeting with communist Chinese officials in a business-like setting, without the pomp and circumstance we accord our friends and allies, and placing human rights high on the agenda.

The task is not easy but it must be done, if we are to have any hope of changing the situation around the world. Thank you.

[The statement of Ms. Baratta follows:]

[Pages 493 - 496--The official Committee record contains additional material here.]

Mr. Packard [presiding]. We want to thank you for your testimony, both of you.

Nancy, while the Chairman is out voting, I will turn to you for your questions.

Ms. Pelosi. Thank you very much, Mr. Packard.

I know that the Chairman is concerned about time, and I, too, want to thank our witnesses for their very excellent testimony, and more importantly, that that is a representation of the very excellent work that they do.

Rather than going in country by country, I thought I would ask an overall question. In your remarks there is an implied criticism of how the Administration has approached human rights in some parts of the world, and I certainly did not pull my punch when the Secretary was here.

If I had more time, I would have had more complaints. One of them was that I would have said to him--and I will write to him to this effect--that I have no confidence in the structure that the Administration has set up to deal with these issues.

Frankly, it scares me to death that they have a core working group on encouraging democracy, because to me it sounds like a group that comes together where other departments of

Government water down the human rights and promoting democratic freedom initiative that should be going in there very strongly.

It will be more clearly demonstrated when the President will meet with a President, be it the President of Turkey or another country, and say, John Shattuck will be talking to his counterpart about human rights. They relate, and then they neutralize, and I think, as I say, they do more harm than good. I have not seen much of the good, but generally speaking, they do more harm than good, in my view.

Could you comment on how the structure of how human rights is considered as an issue, really sort of following up on a question that Mr. Packard had earlier.

How could this Administration set itself up better to implement promoting human rights and democratic freedom policy?

Mr. Roth. Well, I think that there are two dimensions to a very broad problem that you rightfully identify. One is the fact that within the State Department, Secretary Shattuck's bureau is completely understaffed, compared to those who might have other interests in mind, and so when these bureaucratic battles are fought out, even within State, John Shattuck just does not have the resources, frequently, to stand up to the regional bureaus, in particular.

One thing that could be done would be to try to bolster the standing, and particularly the personnel of his bureau, because I think that that is, in a sense, the best guarantor to actually have the manpower, the people power, to push that forward.

A second problem which I think often arises is that the State Department, and particularly with Secretary Albright at its head, does frequently come out with relatively pro human rights policies, that then tend to be watered down in the interdepartmental struggles, that it is ultimately up to the White House or the National Security Council to mediate.

What we have found, over and over, is that the State Department may be pushing for a very positive stance, but that is watered down by the Pentagon or it is watered down by the Commerce Department.

I am not sure that there is a structural solution to that, so much as the need for much firmer political will on the part of the President and his chief advisers, where so many times pro human rights policies have been watered down.

I think a good example is what he did on Nigeria over this last week, where a very strong State Department statement got watered down by the White House.

I do not know what, short of continued pressure by you and your colleagues, will rectify that.

Ms. Baratta. Yes. I would agree, that I do not think there is a structural fix that is apparent. Also, there is always value to--I think other countries look to see who is making the human rights statements. Is it the President? Is it the Secretary of State? Is it just the Assistant Secretary of State for Human Rights? So I think it is really incumbent upon the administration, if it is going to stick by its policies, to make sure that the same message is being sent at all three levels, because where there is discrepancy, other foreign leaders will see it and seek to try to manipulate it or exploit it, and these interagency processes are very cumbersome.

I was in the executive branch once, and you can get lost in that, but if there is someone at the top who really believes strongly in the policies, and is vocal about it, it makes a lot of difference.

Ms. Pelosi. So we will have to depend upon the leadership of the President of the United States and his commitment to human rights, to keep it at least on a par with the other issues that are pillars of our foreign policy.

I firmly believe that in order to be consistent, that it would be a tragedy; but I think that the Administration should stop saying that promoting democratic freedoms and human rights is a pillar of our foreign policy. It is a farce. We want it to be a pillar, we hope it is, but if that is what a pillar is, that is a crumbling mess, and, you know, I would hate to think that our foreign policy would be bolstered by such a feeble attempt.

As far as Nigeria is concerned, I do not understand. I think that those statements were completely contradictory, although they tried to smooth it over by saying they were completely compatible or something. Maybe it was a mistake, which would be unfortunate, but at least that is the most benign interpretation.

I do appreciate what you have had to say, and we have to just keep convincing people at the top that statements are one thing, but real leadership on the issue is another.

When I look at the people who come to the Labor, Health and Human Services and Education Subcommittee, who head up the National Institutes of Health, I say to them you are the luckiest people in the world, you have the best jobs in the world, because everybody wants you to succeed. Everybody on the committee and in the Administration, you know, wants these people to succeed, to find the cures and do the research, and involve young people, and the rest.

I look at John Shattuck, who brings a lot to the Administration and I respect him, enormously, but I do not know how he drives to work in the morning. In any event, I made that clear when he was here.

I thank you for your observations about how we can do this better, and I have no other questions. I have many, but in the interest of time, I will not pursue them.

Mr. Packard. Thank you.

Would you have some recommendations for the administration on how to balance out the human rights issue on our economic policies?

Ms. Baratta. Yes. I mean, it is difficult to do that overall, but if you take a situation like China, where I think it is perceived as being most in conflict, I would argue that it should not be seen as in conflict. That yes, we can be promoting engagement through long-term trade, but that is not a substitute for dealing with the immediate problems today, and that if there is any lesson to be drawn from the economic crisis that is now plaguing much of Asia, it is that it is bad for business to ignore human rights.

It is precisely the lack of human rights in places like Indonesia, the lack of respect for the rule of law, the lack of accountable Government, that both leads to the political suffering of the Indonesian people, but has also made it possible for a corrupt Government to make the kind of poor

economic choices that has led Indonesia into the hole that it is in today, which in turn is going to be hurting American business.

So I think there is a much greater compatibility between the promotion of human rights and the promotion of our Nation's economic interests than is generally perceived.

I think that we were perhaps at loggerheads over the MFN debate, which is unfortunate, but there is no reason for us to be at loggerheads today, and I would hope that more and more people can see the compatibility, that certainly the crisis in Asia is underscoring.

Mr. Callahan. Thank you.

Mr. Kingston, do you have questions?

Mr. Kingston. I regret I did not get your name.

Ms. Baratta. Mira Baratta.

Mr. Kingston. My question was you mentioned about the President not--I want to try to paraphrase you accurately--but you said while he expressed regret about slavery of 100 years ago, he did not mention current--and you fell short of saying current slavery, but you said similar practices.

Ms. Baratta. Right.

Mr. Kingston. What and where?

Ms. Baratta. Uganda is an example. Unfortunately, I do not have the latest issue, 1998, which will be more up to date. But Uganda, Sudan, children being abducted, women being basically sold as not more than chattel. We could get back to you with the latest cases. I can give you, you know, last year's, but the latest cases, when we get our report. I think he made those remarks in Uganda, and even if it is not Government policy, it is tolerated by some of the regimes in Africa.

Mr. Kingston. Well, one of the criticisms of his trip, that I read, was that a lot of the problems with some of the African nations that he was visiting, you know, was not that, you know, we do not have trade opportunities already. It is that the regimes are bad.

Was he embracing some bad regimes, in your opinion, and if so, which?

Ms. Baratta. Well, I think we would have, Freedom House would have some concern about his visit with President Kabila. I think that, as I mention in my testimony, the record of rights in that country has not improved since the fall of Mobutu. The lack of cooperation. In fact the defiant treatment of international investigators of the War Crimes Tribunal for Rwanda, is another example of basically a regime that does not respect political and civil liberties the way we would expect them to.

I think that kind of message does not mean he should not meet with some of these leaders, but he should put human rights and political and civil liberties high on the agenda, and not ignore those issues.

Mr. Roth. If I could just elaborate on that a little bit. The administration seems to be looking at this new generation of African leaders in places like Rwanda, Uganda, Ethiopia, Eritrea, perhaps Congo, as so much better than what preceded them, that it is willing to embrace them, and they clearly are better.

I mean, you take somebody like Museveni in Uganda. Of

course he is better than Idi Amin or Milton Obote. But that is not justification to uncritically embrace the problems that they currently entail, and if you take, for example, this Museveni idea of nonparty democracy, which is a very influential idea in that part of the world, and for the President to not only sign a document that seemed to tacitly endorse that, but to fail to speak out and make clear, that this is not just the difference between, you know, parliamentary and presidential democratic systems, this is a substandard system, one that violates international human rights. That was a real error because it sends the signal, that under this guise of African solutions to African problems, we are willing to countenance something that we should not be tolerating at all.

Ms. Baratta. Can I just add one other thing. I mean, you will find that in some of these countries the economies are actually quite free. I mean, that is not the problem. The problem is in the judiciary system, in the political, and electoral process.

The trade issue is not a question. The economies are free. It is on the political and judicial side.

Mr. Kingston. Thank you.

Mr. Packard. Thank you, and thank you very much.

We will dismiss this panel and we appreciate very much your contribution to the hearing.

We would ask for the third panel, Ms. Robin Williams, to join us at the desk, Mr. Carlos Salinas, and Mr. Mike Jendrzenjczyk.

We will proceed with Mr. Carlos Salinas. We will wait for a Member of Congress who wishes to introduce Ms. Robin Williams. So we will wait for that introduction and have Mr. Carlos Salinas proceed with his testimony. We have a copy of your statement. We would appreciate you summarizing.

Mr. Salinas' Opening Statement

Mr. Salinas. Thank you very much, Mr. Chairman, distinguished Members and staff. We are pleased to present our thoughts on human rights in Latin America and the Caribbean as they pertain to the administration's fiscal year 1999 foreign operations request, and we recognize that time is limited, and thus, thank you for holding this important hearing.

Amnesty International derives its evolving mandate from the Universal Declaration of Human Rights whose 50th anniversary is this year. We seek to prevent and denounce illegal killings, executions, ``disappearances,'' torture, and ill treatment.

There are acute problems with illegal killings and ``disappearances'' in Mexico, Colombia and Brazil. While outstanding ``disappearances'' are recorded in most of the region, equally widespread are torture and ill-treatment. In most cases, the perpetrators escape punishment while the survivors receive no redress.

We also seek the liberation of prisoners of conscience and the prompt and fair trial of political prisoners. We note large numbers of prisoners of conscience in Mexico, Cuba, and Peru, and these often result from unfair trials.

While Amnesty concentrates mainly on State actors since

States are the signatories to the Universal Declaration and other human rights treaties, we do oppose human rights abuses by armed opposition groups. We condemn abuses by insurgencies such as the Revolutionary Armed Forces of Colombia who hold hostages, mainly Colombian nationals, but also three U.S. missionaries, and recently, more U.S. nationals, and they also engage in illegal killings.

Because of the time, I would like to concentrate on some general provisions that apply to most if not all countries of the region, and address any country-specific concerns in the question and answer.

While reviewing the foreign aid request, we ask whether the proposals will hurt or help human rights. Obviously, no one sets out in these programs to hurt human rights, and no one in Washington would say they are for human rights violations. Yet programs do end up eroding rights.

The reason we believe this happens is through overzealousness and lack of clarity. Two key areas where this is a concern is military training and arms transfers. Both are plagued by a chronic lack of transparency, and what appear to be frequent failures in oversight by the administration.

Various parties argue that military training programs are important and useful because they increase U.S. influence, and are a vehicle for human rights training. We do not believe these assertions have been rigorously tested through a detailed program for monitoring and follow-up. Absent such evidence to support these assertions, we remain concerned about the training of militaries deeply implicated in human rights violations. We have just issued a report on military training which we would like to submit for the record.

One of the more controversial training programs this committee has examined is that of the U.S. Army School of the Americas.

One of the committee's most vocal Members on this issue has been Congressman Torres, and I would like to take a moment to say that we join in the general mourning for his decision to leave office as he has been a true friend, and a human rights champion, and we will miss him. But of course we look forward to another great year.

The lightning rod for criticism of military training that has been the School of the Americas involves allegations concerning the school, yet we are convinced that some of the school's fundamental problems apply to all U.S. military training programs.

We note that unanswered questions keep piling up while mounting evidence points to a systemic problem and climate that encourage violations. We are troubled, not only by the record of some of the school's graduates, but also by the seven training manuals used by the school which clearly encouraged human rights violations.

Some have asserted that the problem with the manuals was restricted to a few passages, and while the passages were indeed abhorrent, the focus on these passages obscures the point that these manuals, from beginning to end, treat civil society voices and dissenters independent of the Government as potential enemies.

Is it any surprise, then, that taking such assumptions to

their logical conclusion would lead to the ``scorched earth'' strategies which have left hundreds of thousands of non-combatants dead or ``disappeared'' in Latin America?

These training manuals were also used by Mobile Training Teams, presumably Special Forces, and we have heard about their training in Indonesia, and also, recently, about their training in Colombia. These manuals were distributed in several countries.

The role of the Special Forces does need to be examined closer. The GAO reported that according to the United States Southern Command, the Southern Theater was made for Special Forces, and that Special Forces are involved in ``training foreign military officials, counternarcotics operations, and miscellaneous other-than-war operations.''

This report also mentions the training of paramilitaries. Intrigued, we wrote the GAO in January but have received no reply.

In the area of security assistance transfers, we would like to thank you for your support for section 570 of last year's Foreign Operations bill. Many Members of this committee, including the Ranking Member, fought vigorously for and supported this provision.

Known as the Leahy Amendment, this provision avoids an all-or-nothing choice regarding aid by approaching human rights violations on a unit-by-unit basis. However, as you all well know, it is only worth the paper it is on. Your constant vigilance for its thorough implementation is necessary, and of course we will be glad to help.

A closer look at how well the first Leahy Amendment, approved in 1996, was implemented in Bolivia is important, given reports of violations that do not seem to have been fully investigated by the U.S. embassy in La Paz.

This provision was also made very relevant when Amnesty International received answers to questions raised in this very committee by Congresswoman Lowey.

Back in 1994, Amnesty issued a report which detailed violations committed by 14 Colombia military units. At a hearing, Congresswoman Lowey asked to what extent has the United States Government funded Colombian units implicated in violations. A State Department official replied, and I quote: ``The military units that generally are mentioned by those who are criticizing human rights performance of the Colombian armed forces are not ones that receive any assistance from the United States.''

We now know that the U.S. embassy identified 13 of the 14 units accused by Amnesty as being recipients of lethal U.S. aid. I do not think the State Department ever publicly corrected the record.

This ongoing controversy over aid to Colombia is being addressed at a conference on Colombia at Johns Hopkins University at this very moment, and I would like to take a moment to say that one of the keys to this issue is ensuring that section 570, the Leahy Amendment, is thoroughly implemented, and that any aid, including to the Colombian police, be carefully screened to ensure that any human rights violations that are currently being addressed as having been committed, or involved by the Colombian national police are

thoroughly investigated, and we know of such reports.

In the meantime, we are curious about press accounts indicating that Colombia wants to purchase some Cobra helicopters, and that a brigade of the Colombian armed forces may be cleared to receive aid.

We are disturbed by a report that the transfer of a few offending individuals is expected to clear the way for another brigade to receive aid.

Obviously, this does not meet the law's requirement that a country needs to take ``effective measures to bring the responsible members of the security forces unit to justice.''

End-use monitoring of U.S. security assistance, which can also prevent the defrauding of the U.S. taxpayer still has a long way to go. For instance, a very recent GAO study found that ``oversight and accountability of counternarcotics assistance [to Mexico] continues to be a problem.''

This, despite the fact that in 1996 Congress expressed concern about a similar GAO finding at that time with regard to Mexico. Two years later, we seem to be at the same place.

Reporting on end-use monitoring also continues to lag, again, despite congressional urging that this be remedied.

The State Department's End Use Monitoring Report detailing calendar year 1995 was released last year. At this pace, this year's report will be released in the year 2000, not necessarily the bridge to the 21st Century that I want to be on.

Before I conclude, I would like to commend this committee for its role in obtaining support for the Clarification Commission in Guatemala, and we hope this support extends, so that all of you become co-sponsors and supporters of the Human Rights Information Act, H.R. 2635, introduced by Congressman Lantos, and several others here in the House. This initiative would release records about violations in Guatemala and Honduras, go a long way to strengthen the rule of law, protect democracy, and achieve closure for families that are trying to find out what happened to their loved ones in these tragedies. Thank you very much.

[The written statement of Mr. Salinas follows:]

[Pages 504 - 515--The official Committee record contains additional material here.]

Mr. Callahan [presiding]. Mr. Jendrzenjczyk?

Mr. Jendrzenjczyk's Opening Statement

Mr. Jendrzenjczyk. Thank you, Mr. Chairman. In the interest of time, I do not want to summarize my statement. In fact, I would like to just very briefly make some remarks responding to some of Mr. Shattuck's comments earlier.

First of all, I very much would want to echo what Mr. Ken Roth and what Congresswoman Pelosi said earlier about the administration's abandonment of any effective policy on China. But I think it is also incumbent upon us in the human rights movement and you as Members of Congress to do more than

criticize, but to come up with some constructive proposals. And I would like to just mention three or four possibilities for your consideration.

One, the President will be going to China in late June or early July. This visit is of enormous importance to the Chinese. The administration is on the verge of possibly lifting some of the few remaining post-Tiananmen sanctions. Some of them, in fact, this committee has jurisdiction over, such as Overseas Private Investment Corporation loans and guarantees. I think it would be very helpful if this committee signaled its strong concern that the President should go to China, but only on the condition that certain very specific human rights improvements take place; and, secondly, that he should not be offering as further carrots or sweeteners for his trip the lifting of the very few remaining sanctions left from the 1989 period that also still have some bite and weight to them.

Secondly, there is a lot of speculation in Hong Kong that the President will visit Hong Kong in the course of this trip, and I certainly share the concerns voiced by some of those here and by friends and colleagues in Hong Kong that there is the beginning of the erosion of the rule of law which many have feared in Hong Kong. There have also been recent threats to the press. A new law that has just been introduced in the provisional legislature that would exempt all Chinese Government offices from Hong Kong Law, this is in direct violation to the basic law, which is supposed to be Hong Kong's Constitution, as well as rather disturbing comments by Mr. C.H. Tung, the chief executive, that Hong Kong should not be allowed to become a ``base for subversion'' against China.

I hope Members of Congress will visit Hong Kong, especially between now and the legislative elections in late May. It is very important that the congressional scrutiny of the annual report under the Hong Kong-U.S. Policy Act, which I should note was due last night but has yet to be delivered to Congress, provide you with a platform to continue your very active concern about the development and maintenance of the rule of law and human rights for the people of Hong Kong.

Finally, there is the overarching issue which will be on the President's agenda of China's entry into the World Trade Organization. I believe it is in U.S. interest for China to become a member if it is willing to play by the rules. But let's face it. China does not have a very good track record playing by the rules in virtually any area dealing with trade and non-proliferation of human rights. And I think Congress as a minimum should insist on having a vote, a vote before the President can decide that China can, in fact, accede to the WTO. That puts you in the picture as players in the policy debate that otherwise will take place only between the White House and Charlene Barshefsky's office across the street at the U.S. Trade Representative's Office.

Moving on from China, one last comment. I cannot help but comment just briefly on Secretary Shattuck's pathetic defense of the administration's decision to drop a resolution in Geneva. Once again, China is making promises of commitments that they may or may not ever abide by, and I would just remind you that in 1986, China ratified a U.N. convention against torture, and yet torture is as rampant throughout China as it

has ever been, and confessions extracted under torture are still accepted under Chinese courts. So even if China did live up to these promises, I think the prospects for implementation would be far greater if the United States maintained its position pushing for a debate annually at the U.N. Human Rights Commission. It means very little to us. It costs very little to us. It means a hell of a lot to the Chinese, which is why they lobby so hard to prevent it. And, once again, the United States has thrown this away.

Two very brief final comments. I mentioned in my statement the situation in Cambodia, and we have all watched with great concern the return of Prince Ranariddh to Phnom Penh earlier this week. The United States, along with other countries, has invested billions of dollars and countless lives in trying to help bring human rights, democracy, and the rule of law to the people of Cambodia. This is not the time to abandon them. But I would urge you to be very vigilant in overseeing the administration's decisions about aid after the elections in late July, because there is a trend among some of the Asian countries, including Australia, Japan, and certainly ASEAN, to recognize the results of these elections even if they are not free and fair. And I think it would be a pity if the United States were to join in that decision. And you can help prevent that by ensuring that aid does not go forward.

Finally, with regard to Vietnam, I have noted in my testimony a recent decision by the Overseas Private Investment Corporation to begin programs in Vietnam, and I want to emphasize my organization has been neutral on the question of normalization of trade and economic relations with Vietnam. However, we think the American law, as it pertains to trade and economic relations, should be obeyed. And one of the provisions in the statute governing OPIC is that worker rights must be respected. OPIC has done three trips to Vietnam in the last 2 years. If you read their own report, they acknowledge the very serious systemic worker rights problems, and yet an OPIC program is about to begin there. And I would just urge the committee to once again use its oversight over OPIC's budget to ensure that, in fact, Vietnam does respect basic worker rights such as freedom of association before OPIC begins handing out loans and risk insurance.

Thank you very much, Mr. Chairman.

[The written statement of Mr. Jendrzeczyk follows:]

[Pages 518 - 527--The official Committee record contains additional material here.]

Mr. Callahan. Thank you. Before we go to our next panelist, I thought we might have a couple of questions for the first two.

Let me just start it off by saying I do not know what the President's plans are with respect to his visit to China or Hong Kong. I do not know what he expects. The only thing we can do is gauge it upon what he is doing in Africa.

I am not a Clinton basher, and I never have been, and I certainly am not bashing President Clinton. But I have not read too very much about the activities during his visit to Africa

where he has mentioned human rights. And I do not know what your organization--I know your jurisdiction is Asia, but I have not seen very much attention given to the tremendous human rights violations that are taking place in Africa, in Rwanda. You know, the only thing I have seen, which I forewarned the President before he went, through an emissary that the Congress or this committee was not going to consider any grant or any promises that he makes to any country other than for monies we have already appropriated. We are not going to consider them an obligation of this country, so do not go over there and promise them the moon and expect this committee to fund it.

I do not know what the total amount of money the President has promised is yet. I was told before his visit that it would not exceed \$60 million, but I think it is----

Mr. Jendrzenjczyk. Watch out.

Mr. Callahan. And I think maybe the person who told me that meant per hour. But the President is promising something everywhere he goes, and he is not making many statements with respect to human rights violations in Africa, of all continents where this should be the emphasis. To be over there apologizing for history and the past history of our country in Africa is one thing. And maybe he is right and maybe he is wrong. But to go there and not to mention the atrocities that are taking place ought to have your organization up in arms. You ought to be on TV every night saying, Wait a minute, why are we apologizing? We should be chastising those countries in Africa that are still committing such serious human rights violations.

Just a brief comment from either of you with respect to the President's visit. Is this an indication of what we can expect in China?

Mr. Jendrzenjczyk. Thank you, Mr. Chairman. Well, talk is cheap, as you know, and you have to foot the bill, and the taxpayers, for what the President promises.

On the one hand, as Mr. Roth, our executive director, said when you had to vote, Mr. Chairman, we welcome the President acknowledging that the international community reacted far too slowly in 1994 to the genocide in Rwanda. But now we have the opportunity at the United Nations, with the creation of an international criminal court, to provide a mechanism where crimes of genocide perhaps can be dealt with. But I also am worried that when the President goes to China we are going to hear a lot of verbiage about the rule of law. Mr. Shattuck has already mentioned rule of law programs funded by the United States.

These programs are fine, but I think we should have no illusion that they are worth investing a great deal of time and resources in. When the Chinese Government itself controls the judiciary, there is no independent judiciary, when the World Bank in its most recent study of Chinese economic and legal system noted that it may take decades before the rule of law can establish any kind of foothold in China, I think that we should be wary of the President overstating the interest on the part of some of the Chinese Government bureaucracy in providing minimal kinds of laws that would help encourage greater foreign investment.

Mr. Callahan. The reason I brought this up was to--I do not know. Maybe I am wrong. I certainly have not read every account

of what the President has said during his visit to Africa. But to the best of my knowledge or at least I have not read where he has mentioned anything, and the point being if he didn't mention anything in Africa, what makes you optimistic that he is going to go to China and say straighten up your act?

Mr. Jendrzenjczyk. I think the President recognizes that his reputation and credibility would suffer enormously. If he is the first President to walk in Tiananmen Square since the 1989 massacre, and he does not utter a word about human rights----

Mr. Callahan. But his reputation ought to be tarnished if indeed he goes to Africa--I mean, I think the human rights violations in Africa far surpass the problems in China with respect to the genocide that takes place there. And certainly this is something that should have been the theme of his visit. And your organization should emphasize to the administration that this ought to be the theme of his visit to China.

Mr. Jendrzenjczyk. Exactly, Mr. Chairman.

Mr. Callahan. It ought to be a human rights mission, not a trade mission, even though that is very important and important to me. This should be the reason for his visit, to address the human rights violations. And unless you make some effort prior to his visit--fortunately, I do not think he is going to promise China any money. At least I hope not. But certainly there is no need to promise money. They do not need money at this point.

But your organization should be addressing the potential visit of the President now to make it a human rights discussion while he is there rather than an economic one.

Mr. Jendrzenjczyk. Yes, Mr. Chairman, we have been talking to the White House and the State Department, in fact, for months about the President's visit, long before it was even officially announced. Frankly, our voice would be greatly amplified if this subcommittee were to write a letter to the White House and the Secretary of State spelling out the kinds of human rights steps that you believe--and we have recommended a few in our testimony--should be taken, that these steps should be, in fact, strict preconditions before the President sets foot in China. I think that would help enormously, and we did, in fact, do much the same with regard to the President's trip to Africa. We were in touch with the State Department and the White House long in advance of the trip. We were supportive of some of the things the President said and did, and as Mr. Roth indicated earlier, we were critical of opportunities the President missed on this trip.

But I certainly agree that the trip to Beijing has enormous symbolic and political importance, and the President should not squander that and the leverage that it provides simply in exchange for a few promises.

Mr. Callahan. I do not think that we should be as deeply into the policy of the executive branch of government by instructing the President about policy. I am talking about themes.

Mr. Jendrzenjczyk. Right.

Mr. Callahan. Certainly this committee can suggest to the President themes, and that theme ought to be that the primary mission to China will be to discuss human rights. But I do not

think we ought to tie the President's hands to any designated instruction from Congress of what you can say and what you cannot say. I just think that it should be spotlighted that even above the economic impact--trade issues no doubt will be discussed with China--that the theme of his mission ought to be human rights; whereas, in Africa, it was seldom even mentioned.

If you allow the President to leave here saying, well, you went to Africa and you did not mention human rights, it is all right to go to China and not mention human rights. So I think that individual members can express what organizations such as yours can address the President--you write the letter. If you want to tie his hands to policy, that is fine. The committee should not do that. And we are not going to do that. But at the same time, let him adopt the theme and let him adopt a program to make certain that human rights are addressed, and then the Congress can respond to those suggestions. But they are the professional policymakers, not the Congress.

Mr. Salinas. The problem, Mr. Chairman, is that we are talking to the administration, we are trying everything we can to get this message across in the media. I do not know how many meetings my counterpart for Africa from our office attended with the National Security Council, with the State Department, with other NGOs, with the media, to make sure that they understood that just going to Africa was not the end of the visit, that that was not the whole goal. But the administration is still acting as if it was a success because they went there.

So, in a way, obviously we are not suggesting that you tie anyone's hands, but even when Congress expresses its concerns to the administration, the administration looks the other way. For instance, on Mexico there have been several letters before the President's trip to Mexico and when he met with the President of Mexico, urging him to raise these issues in a public manner. The President did not. So we can only go so far.

I think certainly your leadership and your involvement is one of the key ingredients for this to work.

Mr. Callahan. Right. Mrs. Pelosi, in your absence, I have taken up your cause.

Ms. Pelosi. Thank you, Mr. Chairman.

Mr. Callahan. We have got to move on to the next witness, and certainly these two gentlemen will stay. But I did want to get the point in that--two points: one, that the President was almost silent on human rights problems in Africa during his visit, and, indeed, what this organization, Human Rights Watch, ought to be doing is focusing now on forcing the President to go to China with a theme of human rights rather than trade so it will be discussed more in depth than it was discussed in Africa.

Ms. Pelosi. Thank you, Mr. Chairman. Again, thank you for holding this important hearing, because it will accomplish something, I believe.

I just want to say one thing. When Mr. Roth was on earlier, representing Human Rights Watch, the general umbrella organization, he did spend some time talking about the Congo and Rwanda. And, the representative of Freedom House also mentioned the fact that it would be better when Secretary Albright goes to Africa another time to go to some of the striving democracies there rather than just to those countries

where she was being photographed with the strong men of Africa. But this is a very important issue.

Many of our colleagues were just on the trip with the President, and I know they will have some input for our committee. I would like to yield to our colleague, Representative Brown, if she could have----

Mr. Callahan. I want to first--oh, you mean on----

Ms. Pelosi. On the Africa trip.

Ms. Brown. I just want to speak just a word on Africa. Mr. Chairman, you know as well as I do that the media choose what they are going to report to the American people. One of the things that will happen is that BET is airing the meetings and what went on, and I want to assure you that human rights were definitely raised in Africa. Some of the things that were brought up, included was the discussion about Uganda and the children. So those issues were definitely raised and discussed, and you will get a full report on that.

Mr. Callahan. I very carefully predicated my remarks based upon news reports.

Ms. Brown. Yes, and you are correct.

Mr. Callahan. That is the essence of my discussion here today. Those of us who are concerned about human rights ought to force the President to share with the media and force the media to say this is a human rights mission.

Ms. Brown. That is true, but the question is how do you get the media to focus on what we view as important.

Mr. Callahan. I cannot answer that.

Mr. Wolf?

Ms. Pelosi. Excuse me, Mr. Chairman. It is still my time, I think.

Mr. Callahan. Okay.

Ms. Pelosi. I think that what we are trying to say here, with all due respect to the mention of it, is that the leadership in the White House has to elevate this issue of such consequence that that is the story of the day, of the trip. I am pleased to yield to----

Mr. Wolf. I did not want the Africa issue to go without--I am going to ask questions in the next panel, as the chairman wants to do, but I did not hear the administration--and if I am wrong, I would like to see it submitted for the record so the committee staff could see what the President did say.

With regard to Uganda, the Lord's Army. If you looked at ``60 Minutes,`` Christiane Amanpour, where she did the report of the cutting off of the lips and the ears, the Lord's Army is being supported by the Sudanese Government, and there has been a lot of activity with regard to them coming into the villages and taking young kids away, cutting off their ears, cutting off their lips. And I think as the administration speaks out on behalf of the children, as they should, they should also be condemning the Sudanese Government that has been partially responsible for aiding the Lord's Army, which is coming in and doing this. And I cannot be critical to say if they have spoken out or they have not. But I think publicly they have got to be talking about this, particularly as they talk about Uganda and Sudan.

I yield back.

Mr. Callahan. Thank you.

Ms. Pelosi. Mr. Chairman, if I may, if it is still my time, I did have a question for Mr. Salinas, but I am very eager for Ms. Williams to have her appropriate time, so I will submit it for the record. It is in regards to the training manuals of the School of the Americas, and you can respond to me on that.

Thank you very much, Mr. Chairman.

Mr. Callahan. Thank you.

At this time, we welcome to our committee Congresswoman Brown, who, along with Congressman Kingston, have one of their constituents with us today. So at this time we will yield to the gentlelady, Mrs. Brown, to introduce our panelist.

Ms. Brown's Introductory Statement

Ms. Brown. Thank you, Mr. Chairman. It was almost one year ago today that I first met Mrs. Williams and the family in my Jacksonville office. Since that time, I have had three trips to Ecuador to visit with her husband. One thing I want to say--and I want to make it real clear--that I have been an elected official for 16 years and I am not a Government basher. I am one that supports the Government. But I can tell you in this particular case--and I want you to listen very closely to Mrs. Williams--I think our State Department, in particular our embassy, has been very insensitive to this family, and I would just like for the committee to listen very closely to her story.

I would like to submit my entire statement for the record.

[The information follows:]

[Pages 533 - 536--The official Committee record contains additional material here.]

Mr. Kingston's Introductory Statement

Mr. Kingston. Mr. Chairman, I am not sure when I first met the Williams family, but I know that this came to our office as routine casework, and we in our offices, like everyone else, do all kinds of routine casework. Frankly, it would not go away. It could not be resolved, and it wound its way to Washington. And I quickly found that it was not an easy call. I had kind of gone--maybe entered it a little bit hesitant--with a lot of hesitation, but now I do believe that Mr. Jim Williams is being held overseas not because of the action of our Government, but certainly the neglect of our Government has been a contributing factor in his not being brought to justice. And I appreciate the work that you have done, Ms. Pelosi, Ms. Brown, and the members of this committee in terms of trying to help resolve this matter, because we have not been able to get straight answers from the various Government agencies.

I greatly appreciate the action and the questions that you asked, Mr. Chairman, this morning.

Mr. Callahan. Mrs. Williams, for your information, this morning we discussed your particular case in great depth with Secretary Shattuck, and we expressed, I think, your views as to what the United States' responsibility is here, possible

suggestions or possible steps this administration could take in your husband's defense, or in defense of any American imprisoned anywhere. We have requested that the Secretary establish a special desk because they have an office where they discuss all types of problems with Americans in foreign countries. But we have requested that the administration establish immediately a special desk that will deal solely with Americans imprisoned in foreign countries.

So we really pressured the Secretary this morning to give us some immediate answers. We still have not received a response from Madeleine Albright with respect to Congressman Kingston's questions when she appeared before our committee. But I can assure you that you have the support of this committee, and anything that we can do to assist you towards justice being rendered to your husband, the committee will be willing to do. So we will offer you the opportunity now to submit your testimony.

Ms. Williams' Opening Statement

Ms. Williams. Thank you. I would like to begin by thanking you, Chairman Callahan, for your support and your interest in Jim's plight. I would also like to thank Ms. Pelosi and, in general, Congressman Kingston and Congresswoman Brown for their continued efforts also. This has just been a non-stop, you know, process for your staff, and I am very grateful for that.

I have to read my testimony because I have never done this before, but I would be willing to answer any questions afterwards. But I do ask for everyone in the room to listen to this story. It has been a nightmare that I am ready to bring closure to.

My husband, Jim Williams, was the owner and president of Caribbean Fisheries of Jacksonville Beach, Florida, for 12 years. This was a four-employee business, myself included, which imported fresh seafood and provided technical consulting services for its international customers. In that regard, Jim was retained by a South American company to assist in the planning and construction of a tuna-processing plant. Our nightmare began in April 1996 when Jose Castrillon, a principal of one of these companies in Ecuador, was arrested in Panama through cooperative efforts with the United States. Newspaper articles reported that Mr. Castrillon was considered a high-ranking member of the Cali Cartel. At that point, FBI and DEA agents visited my husband and me at our home in Jacksonville Beach, the evening of April 23rd, to discuss Jim's relationship with Mr. Castrillon.

Jim assured the FBI that all of the business he had done with Mr. Castrillon was documented and legitimate. The agents who came to our home that evening said that if Jim did not cooperate with him, they would ``ruin our lives.'' Jim maintained his innocence, and naively thought that justice would prevail. Jim and our attorney, Isaac Mitrani, met twice with the FBI in order to convince the FBI that at no time was Jim Williams a knowing participant in any wrongdoing by Castrillon.

As far as Jim knew, Mr. Castrillon was what he purported to be: a principal in a fishing concern in South America. But the

FBI remained unconvinced as to Jim's innocence. The FBI agents told Jim and our attorney that they could be ``quite helpful'' to Jim, but Jim would have to implicate Mr. Castrillon as a drug trafficker and tie Mr. Castrillon to the importation of drugs to the United States. Jim could not support these allegations because he had never witnessed any such activity.

After these interviews, our attorney advised the FBI in writing of Jim's plans to continue to travel and do business with his customers in South America. The FBI voiced no objection to Jim's continued traveling. Because the FBI did not object to his continued traveling, Jim, Mr. Mitrani, and myself had the impression that Jim was in no danger, despite his inability to implicate Mr. Castrillon.

On September 18, 1996, Jim was arrested by the Ecuadoran National Police in his hotel in Guayaquil, Ecuador, at 10:30 p.m. He was arrested without a warrant, nor was he in the process of committing a crime. Jim's room was searched without a search warrant, and there was no incriminating evidence found during that search. Jim was not presented to a judicial officer after his arrest. He was held in solitary confinement with very little food or water, was deprived of sleep for six days, was denied his request to call an attorney, and had a list of attorneys, which was outdated, but provided by the U.S. Embassy, taken away from him.

The warrant for Jim's arrest was provided one week after he was thrown in jail, and he was charged with money laundering, even though the law clearly states in Ecuador that in order to charge someone with money laundering, there must be a prior drug-trafficking conviction. There was no drug conviction in my husband's case. Shortly after my husband was arrested, the FBI began to contact Isaac Mitrani and asked if Jim was finally ready to testify against Mr. Castrillon.

One important thing to know about Ecuador is that they have one of the strictest drug laws in the world. This is a direct result of pressure by the United States for Ecuador to comply with the war on drugs. But the problem is that this is a Third World country with a corrupt justice system, and the result is thousands of people are put in jail and left there without ever receiving a trial. One of the provisions of this law is called preventive detention, and basically it means that all suspected drug offenders are held without bail. Fewer than 40 percent of all prisoners in Ecuador have actually been sentenced, and still the real drug traffickers are buying their way out of jail because it is so corrupt. Jim has refused to pay any bribes even though he has been approached several times.

I know that both Human Rights Watch and Amnesty International, as well as the State Department, have all acknowledged the extreme violations of due process in this country. In fact, the Supreme Court of Ecuador has actually ruled that some provisions of this drug law are unconstitutional, but there is no one enforcing this.

My husband has been held for 18 months now, and every phase of his prosecution has been absurd. There is no end in sight. He has filed habeas corpus appeals, but habeas corpus is never granted in narcotics cases. From the beginning, my husband's rights to due process have been violated. But the most troubling aspect of this whole situation is the United States

Government involvement.

We uncovered a letter in court documents written by a DEA agent, acting out of the Guayaquil office in Ecuador, addressed to the Ecuadoran police one month before my husband's arrest, stating that Jim was a member of Castrillon's international organization. They requested that the Ecuadoran police do what they can to ``disarm'' this organization. And in Ecuador, a police report serves as sufficient evidence to detain a prisoner--many times for years. It is very clear that it was the United States involvement that led to my husband's arrest. But the DEA has since recanted, and wrote a letter to Congressman Kingston and Congresswoman Brown that there are no charges or pending indictments against my husband.

A Member of Congress in Ecuador has acknowledged the idiocy of their court system and agreed to sponsor amnesty legislation to release Jim, as long as the United States Embassy does not oppose this method. And this is our biggest problem. The Deputy Chief of Mission at the U.S. Embassy has told many people that my husband is a guilty man. Congresswoman Brown has heard from many high-level government officials in Ecuador that it is because of pressure from the United States Embassy that Jim remains in jail.

On December 2nd of last year, 14 Members of Congress wrote to the Secretary of State and asked for an investigation of how the agency handled this matter. On March 4, 1998, Madeleine Albright promised members of this subcommittee that she would investigate the situation. And once again, the response came from Ms. Barbara Larkin that embassy officials had done everything in their power to help Jim. I can tell you--and Congresswoman Brown and Congressman Kingston can verify--that the United States Embassy has been my husband's biggest enemy.

At this point I have done everything I can. As Congresswoman Corrine Brown stated to a news reporter, ``American citizens incarcerated abroad should not have to be fighting their own government.'' My husband's detainment has been a gross violation of due process and international standards of human rights. I hope that you on this subcommittee can help me end this nightmare.

I thank you for the opportunity to hear my story.

[The statement of Ms. Williams follows:]

[Pages 541 - 543--The official Committee record contains additional material here.]

Mr. Callahan. Thank you.

Mrs. Brown, do you have any questions?

Ms. Brown. Do I have any questions? I just want to say that I have spoken with the Congress there, and they were willing, just before Christmas, to just grant amnesty if we could get letters saying that we would not object. And we got letters from the DEA, and we got letters from the FBI, but we could not get a letter from the State Department. And it is hard for us to believe that they personally feel that their visas would be taken if they do what in their opinion they feel is right. And there have been several articles in their paper stating that

our Government would take their visas if they let this person go. It is just ludicrous.

Let me tell you, just as far as human rights, those conditions in the prisons are the worst conditions in the world. I have been working with this for over a year, and one person, a young man, 16 years old--when he was arrested for one stick of marijuana, he had served four years in prison in the worst conditions in the world. I was able to get that person released, and I have been able to get some of the Ecuadoran prisoners released. We are talking about when they go in and raid, they arrest everybody in the room because you associate with someone, for instance or we are sitting here at the table and Jack has one stick of marijuana, they arrest all of us, or they go to the home, they take the entire family.

So the conditions, you talk about human rights violations, the conditions in the prison are the worst. Since I have been working with them, they have declared their prison in a state of emergency, and they are trying to work to clean it up. And we have gotten some assistance from, I think, the World Bank as far as giving them some assistance to try to set up a judicial system that is operational. Presently, it is not functioning.

Mr. Callahan. Mr. Kingston?

Mr. Kingston. Mr. Callahan, I want members of the committee to go back to one thing that Ms. Williams said about that the threat, which apparently came from our Government, the FBI to be specific, that they would ruin the Williams' life.

Now, I know this is tender, but, Ms. Williams, you have lost a business.

Ms. Williams. Yes.

Mr. Kingston. You have no health care.

Ms. Williams. Total financial destruction for Jim and I. We have been married for 8 years, and the only thing I have right now left is my home, and my family is financially supporting me in that they know I am lobbying for Jim's release. And Jim and I lost everything.

Mr. Kingston. And you were working for a bank and went to work with your seafood company as a partner, and now that is gone. And your brother-in-law, who runs a restaurant, is footing many of your expenditures.

Ms. Williams. That is true also.

Mr. Kingston. So, indeed, your life has been ruined.

Ms. Williams. My life is totally ruined, and I know that Jim's health is in jeopardy. My health is now in jeopardy because of the stress that I have gone through, the emotional roller coaster of thinking Jim is coming home. You know, I live my life not knowing when I am going to have Jim back home in the United States.

I honestly put full blame of Jim's arrest on the United States Government, and now I am asking the United States Government to help me bring Jim home.

Mr. Kingston. And I know, Mr. Chairman and members of the committee, she only makes that statement after a year and a half of this seemingly endless runaround. And what Mrs. Brown and I have found as we have tried to take this on is that the Government agencies that we are working with are clearly not trying to help Jim Williams. And I would not have said that 6 months ago, but they are clearly not trying to help him. And it

reminds me of Kenneth Starr versus Bob Bennett. It is really more of this legal--``well, let's split this sentence and just change it a little bit here and let's do this.'' They are splitting hairs rather than saying you have got an American citizen in a foreign jail that needs justice. And we have said repeatedly he may be innocent, he may be guilty, but he is not getting due process. We know that for a fact.

Ms. Williams. One other point, just real quick, is that we have said all along that if our Government thinks Jim is this bad guy, then indict him and bring him back to the United States, because Jim and I would welcome a court of law in the United States to face the accuser, being the DEA. I mean, all of our records are in the United States, and yet he has been charged with money laundering in a foreign country where he owns nothing.

Mr. Callahan. Mrs. Pelosi?

Ms. Pelosi. Thank you, Mr. Chairman.

Thank you, Mrs. Williams. I know it was difficult to share your story with us, to revisit all of this over again. I was taken by the interest of my colleagues, Mr. Kingston and Ms. Brown, and the fact that they believe that all remedies have been exhausted as far as the U.S. Government trying to help. But the question is: What has been the effort? Has it been a good effort?

I imagine you must have some legal fees along the way here.

Ms. Williams. I have quite a bill sitting on my desk at home. We just had a fund-raiser on St. Simon's Island to pay legal fees. I mean, Jim and I will be paying legal fees for the rest of our lives.

Ms. Pelosi. Mr. Chairman, I just wonder, there have been situations where if we can document that the FBI and the U.S. Government were complicit in Jim being arrested without a warrant and charged with a charge that has no predicate--it is supposed to be predicated on his having been--you cannot be charged with money laundering unless you have been found guilty of drug trafficking.

If the U.S. Government had any role in that, I just wonder if there is not some way to recapture at least the legal fees for the Williams family. If this is as it is described--and I believe that it is. But if we can prove the case that this is the case, that at least there could be that.

Clearly, your family, it will be a long time before you will be made whole from this. You have suffered so much already. They cannot give you the last 2 years back. But there should be at least some attempt at some sense of justice about it. And I don't know what the recourse is that we have. Do you know, Mr. Wolf?

Mr. Wolf. Would the gentle lady yield? Yes, there is a recourse. This is on your time because I do want to ask some questions. We put a provision in the transportation appropriations bill several years ago to reimburse those in the White House Travel Office that had been unfairly fired by the Clinton administration. I put it in the transportation appropriations bill on the House side, Senator Dole put it in on the Senate side, reimbursing them for their costs.

Also, in the last Congress, we put in--and I offered the amendment--in the Treasury appropriations bill to reimburse

Secret Service agents who had been involved in the same activity, again, by the Clinton administration, and they were reimbursed with regard to their legal fees. My staff will share with your staff both of those. So there is precedent in the Appropriation Committee. One we did in transportation appropriations for the White House Travel Office, and one we did in Treasury appropriations. But we will share that with you.

Ms. Pelosi. That sounds like a good model. I do not mean to say that this in any way would compensate for what you have been through, but I do think that, first and foremost, we have got to get your husband back.

Ms. Williams. Jim home.

Ms. Pelosi. First and foremost. But in the course of that, it will probably involve more legal fees in the meantime, and you certainly have to have the wherewithal to do that. I do not know if it is possible to put something in our bill, Mr. Chairman, or whatever, but I certainly hope that we can find some way to mitigate the suffering that Mrs. Williams and her family have suffered so far.

Thank you again. Thank you, Mr. Chairman.

Mr. Callahan. Well, you know, I am not an attorney, and I do not even want to be an attorney. I do not apologize for that, incidentally, but, you know, under current law here in this United States of America, if Jim Williams was a mass murderer sitting in prison, the United States would furnish him an attorney, and regardless of the evidence. And certainly because he is incarcerated in a foreign prison, an American family and citizen is being bankrupted simply because the United States of America apparently made some accusations that led to his arrest.

So, with respect to an appropriation, that would be no problem, but that will not resolve this situation. We can resolve those problems after we have proper judicial procedures followed. I understand that the Ecuadoran Government will indeed release him if the United States of America would recommend it. So, obviously, there must be a problem. The FBI tells us, all of the agencies tell us, that they have nothing on Jim Williams concrete or definite. And so the Ecuadoran Congress says, If you will write us a letter to that effect, we will let him go.

Ms. Williams. Right.

Mr. Callahan. So they tell us there is nothing there. They tell the Williams family there is nothing there. And yet they refuse to write a letter to allow him to come here.

If he is dealing in drugs that were coming to the United States, which obviously if he were--I mean, he wouldn't be shipping them to France--then he would be in violation of U.S. law, and the U.S. Government could indict him if that were the case.

So I do not know what else we can do, Ms. Williams. We have limited authority even under our judicial system. But I think what we did this morning by almost demanding that Secretary Shattuck create an international Americans in prison desk that is an advocate of the Americans, not an advocate of the FBI, not an advocate of the State Department, not an advocate of anything, but an advocate of justice for American people being

punished in foreign jails. So, I mean, we have dozens of these cases that need the same attention.

Ms. Williams. Right.

Mr. Callahan. And we probably have dozens of cases that we are unaware of because the families of the inmates in a foreign country have not come to us. But I do not know what we can do to further insist that justice prevail, if I could wave a wand, if I could pass a law, if I could do anything, I would. We tried to, I think, come forth with a resolution and expression of Congress to give some support to the Ecuadoran Congress, and we have written letters to them. But now, as I am told, if the State Department would simply write a letter indicating that they have no reason to believe that he is involved in this conspiracy that they contend he is, they will let him go.

So why does the State Department--what do they tell you is their reason? Why not? When you ask this question, what do they say?

Ms. Williams. They are basically saying we do not have the authority or the expertise to look into the evidence in this case and that we only ask that Jim be allowed due process.

Ms. Brown. Mr. Chairman, would you yield for a second?

Mr. Callahan. Yes.

Ms. Brown. The Ecuadoran officials have conveyed to me if they had something with the sense of the Congress, some statement that they had some support from the Congress, they would be willing to release him, because we have not been able to get a statement from the State Department or the Embassy. We have gotten it from the other agencies involved.

Basically, all we are saying is if he is guilty, then try him here. But we just have not been able to get any kind of positive response from the United States Embassy in Ecuador.

Mr. Callahan. Congressman Wolf?

Mr. Wolf. Thank you. That is a terrible story. I almost cannot believe it. It is like a nightmare that your own Government would be working against you.

One, I think the committee--I think Mr. Kingston should offer the amendment. The committee should put language in the committee report asking--again, the committee has stated clearly that they do not know his guilt or innocence, but asking, one, that in the record, show a letter from DEA--I assume you have that letter. Do you also have a letter from the FBI?

Ms. Williams. The FBI.

Mr. Wolf. Also a letter from the FBI, also doing a letter to Director Freeh verifying so there is no doubt, and then, thirdly, let the committee report language state that it is the position of this committee that--and the chairman and Mr. Kingston could work it out--Mr. Williams ought to be permitted to come home. If he is guilty, let them charge him here. If he is not--but it is the position, and then we will have a roll call vote. When this comes up, it will be in the committee report. That may give you enough to go with.

I will work with Mr. Kingston. I will be glad to do anything that we can to help. Also, this is a case where the State Department gets clientitis. They begin to think in terms more of the country that they are in than of the people that they represent.

Ms. Williams. Exactly.

Mr. Wolf. To me, if the DEA says he is not, the FBI sayshe is not, then I think the committee ought to just put that in a report. That would give you enough to go back, you and Jack to go back to the Ecuadoran Government and say here you have an Act of Congress, which this administration will have to sign because they will not have their appropriations bill.

Lastly, though, I think the committee should also put language in there or send a letter by everyone insisting that Mrs. Albright either send a letter saying that they have information on Mr. Williams, that he has been involved, or they do not have information that he has been involved. I mean, it is crazy. They are taxpaying people and they have their own Government working against them. And I have not been in this prison, but I have been in prisons in China and others, and I watched that movie ``Midnight Express.'' And who knows what goes on in some of those places? The thought of an American citizen there in this kind of catch-22 situation is crazy.

So I would hope--and I would offer this motion or do whatever we have to do so we can do that. My office will also share with Mr. Kingston and the committee the language that we used in the transportation appropriations bill for the White House Travel Office where the Clinton administration illegally fired these people, and we paid their legal fees, and also the language that we used on the two Secret Service agents that were involved. I think if we combined those two, and this bill may be one of the first--

Mr. Callahan. If the gentleman would yield, maybe we could go one step further, too, during this process, and I certainly would have no objection to inserting language in our bill. But, you know, if the FBI is telling us one thing publicly and another thing privately, maybe we ought to go into executive session and to get the FBI here.

Mr. Wolf. I think that is a great idea.

Mr. Callahan. As well as the DEA, as well as the State Department, in here to tell us if there is something we should know, we ought to be aware of it. If they have absolute evidence of Mr. Williams' guilt, then we ought not be defending him. But they do not have that. So if they want to hide under the cloak of privacy and under the veil of confidential information that may impede the ability of them to eradicate drugs worldwide, that is fine. Maybe we ought to bring them into executive session.

Mr. Wolf. I think that would be an excellent idea. I think the chairman has--bring Mr. Freeh and the head of the DEA in and just ask them.

Mr. Callahan. Let's bring them all in at one time because the Ambassador tells us one thing, the FBI tells us another, DEA tells us another, the Secretary of State says she will look into it. The Assistant Secretary for Human Rights said he is going to do something about it. But what we need to do is to get them all in one room in a closed session and have them tell us why not. If there is something we do not know, then we ought to be told as Members of Congress. But we will entertain both the possibility of bringing Mr. Freeh here. This is the time of year, as you well know, when they need us. It is appropriation time. But we will bring them all into one room and go into

executive session and find out if there is something they can tell us in executive session. And if they cannot tell us anything, then force them to assist Mr. Williams in getting out of prison.

Mr. Wolf. If the gentleman would yield for a second, I think that is a great idea. Louis Freeh is a constituent of mine. He lives in my congressional district. When I go back to my office, I will call Mr. Freeh myself and ask him, and tell him that the chairman is going to do this, and ask Mr. Freeh to tell me one way or the other.

I would just end with anything we can do working with the chairman and Mr. Kingston, Ms. Brown, and Ms. Pelosi, I would be willing to do that.

Ms. Williams. Thank you.

Mr. Wolf. Thank you.

Mr. Callahan. Mr. Kingston?

Mr. Kingston. Mr. Chairman, I certainly appreciate that, Mr. Wolf, and I appreciate the interest and the earnestness of this committee.

To give you just one little vignette--and I can say this: that Ms. Brown and I can just tell you stories upon stories. Each week, you know, this has a new turn. But at one point--I am not sure which enforcement agency it was, but they said, well, yes, we know he is guilty. They said we believe he is guilty, you know, this kind of get Ms. Williams out of the room so she will quit crying in front of us, and we will tell you he is guilty. Then, you know, they will say something like, for example, ``phone calls from the boat,' ' you know, ``lots and lots of phone calls.' ' And those have already--that is last year's news. He made lots and lots and lots, an inordinate amount of phone calls from his boat. But he was working with them as a legitimate customer.

I do think that what probably happens, when Jose Castrillon brought him in, he was using him and was using his company as a fence, and he brought in Jim Williams and other people to do legitimate business functions, and they do not know the guy's whole story.

But what would happen is Ms. Brown and I would talk to our agencies to really try to determine if they felt he was guilty. They would say yes, because of so-and-so. And then we would check that out and find out, well, that wasn't the case at all. That was a half truth or a half story, and then we would get the full story and find out that there is nothing to it. And it is very difficult to bring this group into a room without Ms. Williams or her lawyer in there because I have found them to be less than forthcoming to our office in terms of really trying to resolve the matter, as much as they have been very forthcoming in trying to cover themselves. It is just so hard to find the head of the snake.

Then you have a middle-class businesswoman who is going broke, and you have got a Government agency that can play this game all day long: I will write you a letter, I will give you a response, the meeting is postponed until next week, that sort of thing. And that is where we have been for a year.

I can say this, that if they wanted to get Jim Williams out, he would have been home for Christmas in 1996. They do not want to, and I cannot quite figure out why. It might be face-

saving. It might be international poker. I do not know what it is. But the man is not getting justice.

Mr. Callahan. In any event, we appreciate the three of you appearing before the committee. I think Ms. Pelosi has some questions to some of the other panelists, or if any other member has questions to any of the panelists. Keep in mind that we have to vacate this room at 1 o'clock and it is 1:05.

Ms. Pelosi. Thank you, Mr. Chairman. I will be 30 seconds.

I look forward to working with Representatives Brown and Kingston on the Williams case. But to get back to the point of whatever assistance we can provide, there are other cases as well, the Laurie Berenson case and others, where this is an example. I am so glad you made the point so forcefully this morning, so as we resolve this one, hopefully we will be able to resolve others, because guilty or innocent, the U.S. citizen deserves due process wherever. And I think that there can be no argument against that, no matter what the State Department has, there can be no argument against that.

I do want to thank Mr. Jendrzenjczyk and Mr. Salinas for their very fine testimony and for their strong leadership on these issues and for the constructive nature of their testimony. The 12-point program, Mr. Salinas, and the suggestion you made about the President were very useful. I do still say that every time the Administration makes or states a policy and we say okay, then they turn around and they are not there again. And it is hard not to be critical, but the constructive nature, I think, of your testimony will be very, very useful, and I thank you for what you have done.

Mr. Jendrzenjczyk. Thank you, Ms. Pelosi. I just would make one other suggestion, Mr. Chairman, and that is, after the President's trip to China, you might ask Mr. Shattuck to come back and give you the kind of detailed report that I think he would be delighted to provide on all the things the President did, especially on the issue of human rights.

Thank you.

Ms. Pelosi. I think that is very important, and this is going to sound unpleasant, but this is an unpleasant subject. I do not see how we can go to Robbins Island and say, oh, my, Nelson Mandela was here for 18 years--and Wi Jingsheng was in prison for most of his adult life, at least 19 years. Nelson Mandela was in prison longer than he was at Robbins Island. Honoring human rights by going after the fact and then ignoring the violations that are occurring in another part of the world, apologizing for not doing more on Rwanda, oh, that is great. I am sorry. It is inadequate. What should we have been doing? Maybe we couldn't do anything. But it should be a decision as to whether to do something or not, rather than to not do anything and then apologize for not doing it and think that balances the scale, if indeed these are supposed to be important priorities.

So I think the suggestion that Mr. Jendrzenjczyk made is very good.

Mr. Callahan. Thank you.

Ms. Pelosi. Excuse me. I just want to commend our chairman because I think it is just great that you had this hearing, and the fact that you fully attended it and were very involved in all of it, it sends a very clear message about its importance,

and I would like to thank you, Mr. Chairman.

Mr. Wolf. I would like to second that, Mr. Chairman. I appreciate you having the hearing.

Two points. One, I think you should urge and we should urge that the President submit a list of prisoners when he goes to China. He should have a firm list, the way that Reagan and other people had. There must be. And I would urge you to speak out asking that there be a list, that the committee ask that there be a list. I think the least we can do for particularly the Catholic bishops and the priests and some of the pastors and evangelicals and some of the Muslims, even, and certainly a number of the Buddhists in Tibet. There ought to be a sacred list that everyone says this is a valid list that these people have gone through literal hell, and we should ask that they be released.

I urge you to keep speaking out on the Indonesia thing. I read your statement. I think we are ready. I believe fundamentally this administration is ready to switch its position on Indonesia. I think they are feeling--they know they have the ability to change conditions for people in Indonesia, and because of the oppressive nature of that government, it has caused much of this problem that they currently have. And so just keep pushing and pushing on Indonesia, and I think maybe they have the ability--they know they have the ability. I sense they may be ready to actually use that ability. So I would just encourage you to do that.

Thank you very much, Mr. Chairman. I have no other questions.

Mr. Callahan. The meeting is adjourned.

[Questions and answers for the record follow:]

Submitted to Assistant Secretary Shattuck

Questions for the Record Submitted by Congressman Porter

turkey

Question. You and I have had several discussions recently about human rights in Turkey. These discussions have centered around the Yilmaz government's human rights initiative and a proposed helicopter purchase by the Turkish government. It seemed to me earlier this year that the Administration was beginning to take a tougher stand on human rights. However, I was dismayed to learn last week that Istanbul will be the site of the next OSCE Summit, a decision that could have only been reached with US support. Given the fact that there has so far been no meaningful progress on human rights by the Turkish government--in fact, the recent public spat between the civilian government and the military could reasonably be seen as a step backwards--how do we reconcile supporting this decision with our efforts to move the human rights ball forward?

Answer. When I traveled to Turkey this past February and met with leading Turkish government officials, I stressed the need for the Turkish Government to take concrete, significant steps to address its torture problem, decriminalize freedom of expression, and lift restrictions in the Southeast.

Secretary of Defense Cohen reinforced this message when he traveled to Turkey this past April.

The administration's decision to support an OSCE Summit in Istanbul

will help focus international scrutiny on Turkey's human rights record.

When viewed in the context of our strong support for holding the OSCE's Implementation Review Meeting in Istanbul, at which Turkey itself would be in the spotlight, the Summit will provide a platform for a discussion of human rights and democracy.

It will also provide leverage to those officials in the Turkish Government and those civil society representatives who seek to advance reforms of Turkish human rights policy and practice.

The prospect of a Summit of 54 world leaders will also provide Turkish authorities with an added incentive to live up to their human rights commitments.

nigeria

Question. A couple of week ago, Pope John Paul visited Nigeria. He called on General Sani Abacha to release political prisoners and make substantial improvements in the human rights situation there. Is our government doing anything to follow up on the Pope's call for action?

Answer. The United States Government monitors closely the human rights situation in Nigeria, and has long made clear its opposition to the Nigerian Government's suppression of democracy and fundamental rights. The USG has consistently called on the Nigerian Government to release political prisoners, and to allow all prisoners access to legal counsel, family visits, and medical care. We have also called on the Abacha regime to either release detainees to their families, or try them expeditiously, in full accordance with international standards of due process. We have done this in a variety of fora; at the UN General Assembly, at the Human Rights Commission in Geneva, in meetings between Nigerian officials and State Department officials in Washington, and in Lagos, in meetings between embassy personnel, including the ambassador, and regime officials. We also meet regularly with members of Nigerian human rights organizations here in the U.S. and in Nigeria. As you know, the United States maintains a range of sanctions against the Nigerian Government, including the banning of military sales and services, a visa ban on military officers and civilian officials who formulate, implement or benefit from policies that impede Nigeria's transition to democracy, and travel restrictions on Nigerian officials visiting international organizations in the United States. We welcome the additional authority of the Pope's call for action.

kosovo

Question. I am increasingly concerned about the situation in Kosovo and about the growing intransigence of Slobodan Milosevic in the face of an inconsistent international posture. It is my understanding that Serbian forces in Kosovo are fortifying their positions and that the rhetoric out of Belgrade has reached a level comparable to that of the conflict with Croatia. What are we doing to ensure the protection of the civilian population in Kosovo and prevent further atrocities from occurring?

Answer. The U.S. condemns violence from all sides in Kosovo, but recognizes that the Serbian authorities are responsible for the majority of the incidents. Slobodan Milosevic's intransigence and policy of repression have been the major obstacles to beginning negotiations with the Albanians, which is the only way to end the violence.

We have been working with both sides, in coordination with our allies, to get negotiations started. After intense diplomatic efforts by special Representative Gelbard and Ambassador Holbrooke, the two parties agreed to begin direct talks on May 15.

We will continue our diplomatic efforts to support a successful

conclusion to the negotiations.

tibet

Question. I have recently seen several reports from different sources indicating that the human rights situation in Tibet is at its worst point in years. Among the most impressive and thorough is the International Commission of Jurists' report that documents a comprehensive campaign of abuse and repression in Tibet. The President will be traveling to China later this year, presenting an historic opportunity to raise this and other important human rights issues with the Chinese government at the highest level. Are these plans for him to raise the Tibet issue with the Chinese during his visit? Will he visit Tibet during this trip? Is there any plan at this time for Gregory Craig, the Special Coordinator for Tibetan Issues, to accompany the President on this trip?

Answer. Human rights issues in China, including Tibet, will be squarely on the agenda for the June summit in Beijing. The President will continue discussions begun at the October 1997 summit on key human rights issues and press for progress in core areas such as Chinese cooperation with the international human rights regime, the release of political and religious prisoners and greater respect for Tibet's unique religious, cultural and linguistic heritage and the importance of resuming dialogue with the Dalai Lama.

Secretary of State Albright raised the issue of Tibet in her high-level meetings during her trip to Beijing in May, clearly signaling the importance the President attaches to the issue of Tibet. She underscored that we strongly believe that resumption of dialogue with the Dalai Lama would be an extremely positive step that China could take in the area of human rights.

The President is planning to travel to Beijing, Shanghai, Xian, and Hong Kong. He will raise human rights issues of concern including the human rights situation in Tibet at the highest levels and in a variety of fora.

Gregory Craig accompanied the Secretary of State on her recent visit to China. Final decisions have not yet been made about who will accompany the President on his trip to China.

burma

Question. Your bureau has been administering the Burma refugee and democracy money for several years now. Every year there have been extreme delays in processing the funds. In earlier years, State claimed that they were working out the logistics of administering a new program but it was our understanding that last year you had worked out the problems. However, as of yesterday, the grantees still had not received a Request for Applications for the Burma program. This is an unacceptable delay and is causing serious problems in the field. Moreover, State again did not request any money for Burma in their Congressional Presentation document for FY 99, despite the worsening human rights and refugee situation there. When can we expect to see an RFA for the FY 98 Burma money sent to applicants? After an RFA is sent, what is the timeline for distributing this funding? What are the reasons for the continued annual delays in running this program?

Answer. We would like to first note that the FY 1998 budget was adopted only last December, making that month the effective starting date of our program year. Since all assistance money is initially appropriated to AID, it must then be transferred or allocated to state for those programs, such as the Burma Earmark, which we administer. This fiscal year, however, there were a couple of new steps in the process, one of which is that AID legal offices have been reviewing the

provisions of the memoranda of agreement under which they allocate money to state to ensure that these provisions fully conform to the Government Performance and Results Act.

The department prefers not to cite specific countries in its congressional presentation budget requests since there are many demands on our very scarce regional democracy funds, and we want to avoid creating expectations that we cannot meet. Instead, we try to maintain flexibility by asking for regional democracy funds that can be used to respond to human rights and democratization needs that arise anywhere in the region.

We now have out for clearances the draft request for applications (RFA) for the FY 98 Burma program, and the congressional notification has gone to the hill. We expect to send the RFA to applicants next week. Competition regulations require us to give applicants a reasonable time to respond, after which we will evaluate proposals for their merit. Given the time required for each of these steps, we expect to take our first decisions on awards sometime in July.

iraq

Question. It is our understanding that during Kofi Annan's last visit to Washington, President Clinton showed the Secretary General the op-ed page from the Washington Post which commemorated the Halabja massacre, in which Saddam Hussein killed over 5,000 Iraqi Kurdish civilians with chemical weapons. Although we have moved away from an immediate military confrontation with Saddam, I believe that the US must continue to lead the world in confronting Saddam for his atrocities and crimes against humanity. What is the Administration's plan to keep human rights as a focus in our dealing with Saddam Hussein? How will we keep this issue in the forefront at the UN and in the minds of our allies, particularly those who have been quick to advocate a rapprochement with Saddam?

What actions will your bureau and others in the State Department take to support the international campaign to indict Saddam Hussein and his henchmen as war criminals?

Answer. We condemn the Government of Iraq's human rights abuses of the Iraqi people. The international community must exert pressure on the Iraqi regime to accept and comply fully with all relevant UNSC resolutions, including those calling for the end of the repression of the Iraqi people. Sanctions must not be lifted until all resolutions have been complied with fully.

At the recent U.N. Human Rights Commission in Geneva, the United States co-sponsored a resolution that called upon Iraq to, inter alia, cease the repression of its own people, cease all acts of torture, including the amputation of hands and feet, cease all acts of internal and external terrorism, cease all actions which have the effect of denying food, medicine and other humanitarian goods to vulnerable populations, and allow human rights monitors throughout Iraq as requested by the Special Rapporteur. The resolution, which passed 35-0, extended the Special Rapporteur's mandate and took note of the Special Rapporteur's conclusions that human rights violations in Iraq are systemic and that--absent a change in the political-legal system--these human rights violations can be expected to continue.

We have long supported the dedicated efforts of human rights organizations and Iraqi opposition groups who demand an accounting of the Iraqi regime's atrocious record on human rights and its possible war crimes, including possible genocide. These groups have been gaining strength. With the funds Congress has just appropriated, we will be able to give them financial as well as moral support.

Making a case for a war crimes indictment of Saddam Hussein and key members of his regime is the role for an internationally constituted investigation leading to an international tribunal. With the successes of the Bosnia and Rwanda war crimes tribunals, it has become increasingly clear that such tribunals are a viable international response to the types of crimes which Saddam and his regime are alleged to have committed.

The U.S. Ambassador-at-Large for War Crimes Issues, David Scheffer, recently visited Kuwait to consult with the Government of Kuwait and non-governmental organizations concerning war crimes alleged to have been committed by the Iraqi regime.

indonesia

Question. I have not supported efforts to tie explicit conditions on human rights to the US contribution to the International Monetary Fund, but I do believe that we must take this opportunity to increase pressure on the Soeharto regime to make political changes and to improve the human rights climate in Indonesia, particularly in East Timor. I also believe the US governors at various multi-lateral lending institutions must take more seriously the current US laws that instruct them to take human rights--particularly political rights, labor rights and environmental concerns into account in making lending decisions.

What specific steps is the Administration taking to increase pressure on Indonesia to reform its political and human rights situation? With respect to East Timor, are we discussing the need to allow a referendum there with the Indonesian government? What is your Bureau doing to educate and assist US governors at the international financial institutions on fulfilling their statutory obligation to factor human rights, labor rights and environmental concerns into their voting? Are you aware of any work by other Administration actors on this front?

Answer. You have seen the statements from the White House and the Secretary over the past days, calling for political reform and urging the government to enter into a dialogue with the people voicing opposition to the current government. The US was the first country to support publicly the calls for political reform in Indonesia, and we are continuing to look for ways to encourage restraint on the part of the armed forces. We have taken a firm stand opposing the use of excessive force by the military. Permitting peaceful protest, restraining the military, and beginning a dialogue to promote reform are the key elements needed now to avert more violence and the resulting political and economic turmoil; the Indonesian authorities are well aware of our views. All decisions on further lending by the IMF, World Bank and ADB are on hold, and we will be evaluating further decisions based on our commitment to help the Indonesian people.

We take the legislation regarding the need to factor human rights, labor rights and environmental concerns into the decisions made by the international financial institutions seriously. We believe that part of our Bureau's role is to provide correct and objective information about the human rights situation in each country, which we do through the Country Reports, through consultations within the Department and, at times, with the officials from these institutions directly. For example, Department officials, including DRL, have met recently with representatives of the US Executive Director's office at the IMF. We work together with the regional bureaus and other agencies to ensure that human rights issues are considered in each decision regarding assistance.

We continue to support the UN mediated negotiations as the best

forum for progress on the situation in East Timor. We have stayed in close touch with Ambassador Jamsheed Marker, the Secretary General's personal representative, and have encouraged the Portuguese and Indonesian participants to increase their efforts to reach consensus on steps that would lead to real improvements on the ground for the East Timorese. We have also urged the government of Indonesia to reduce troop levels and ensure that abuses by military forces in East Timor are punished. We are working to ensure that the problem of East Timor is not overlooked in the more general concerns about the deteriorating situation in Indonesia.

Submitted to Amnesty International

Questions for the Record Submitted by Mr. Torres

Question. Since you were asked questions about Africa and you made clear that you do not focus on Africa, is there any Africa material Amnesty International USA would like to include for the record which pertains to US policy towards Africa?

Answer. Yes, I include a briefing paper entitled ``Civil Society and the African Renaissance'' and a March 1998 document entitled ``Africa: Recommendations to the US government for the promotion of human rights in Africa.''

[Pages 556 - 572--The official Committee record contains additional material here.]

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